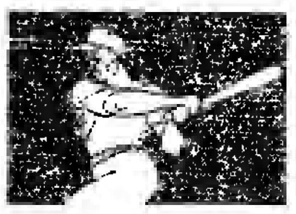
هكذا من الأصل

Indonesian dilemma
Why Suharto is backing free trade
Page 15

Bang up to date
The lessons of the bomb
Page 12



Baseball hit
How a Japanese bank set interest rates
Page 6

Today's surveys
Turkish Finance
Consumer Credit
Separate Sections

FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY NOVEMBER 3 1994 — D8523A

Share sale price values Renault at nearly FFr40bn

Renault shares will go on sale to the public today at FFr165 ($32.16) a share, the French government announced. The price values the company at slightly under FFr40bn ($7.8bn). Economy minister Edmond Alphandéry said the tranche of shares offered to institutional investors was 10 times over-subscribed. The state is selling nearly 30 per cent of Renault's capital but will retain a 50.1 per cent stake. The price set for institutional investors was FFr176. The sale to institutions will end today while the public offering will last until next Thursday.

Italian banks merge: Ambroveneto is to be taken over by Banca Commerciale Italiana to create the country's second-largest banking group, while Bologna-based Credito Romagnolo plans to merge with regional savings institution Cassa di Risparmio di Bologna. Page 17

Car bomb kills Palestinian: Anti-Israeli protests broke out in Gaza City after a car bomb fatally wounded Hani Abed, 35, a leader of the extremist Islamic Jihad faction. Hamas moderates and Israel edge towards talks, Page 6

Japanese reforms passed: Japan's lower house of parliament passed a sweeping electoral reform bill which replaces multiple-seat electoral districts with 300 first-past-the-post seats and 200 proportional representation seats. Page 16

French unemployment reached a record 3.35m or 12.6 per cent of the workforce in September. Page 3

BAT Industries of the UK raised third-quarter taxable profits by 21 per cent to £551m ($870.6m) helped by higher tobacco profits in the US and recovery in Brazil. Page 17; Lex, Page 16; BAT warns of challenge, Page 9

Storms kills 410 in Egypt: More than 410 people died as a result of storms in southern Egypt. At least 229 were killed when blazing fuel from a military depot struck by lightning flooded into the village of Dronka.

Deutsche Telekom's partial privatisation is likely to mean key roles for US and UK banks, chief executive Helmut Ricke said. The 1996 privatisation is expected to raise about DM15bn ($10bn). Page 17

Murder trial opens: Three men alleged to have killed exiled Iranian premier Shapour Bakhtiar in 1991 went on trial in Paris amid heavy security. Six others are being tried in absentia.

Britain sheds spy jobs: The British government is cutting up to 500 jobs at GCHQ, Cheltenham, a secret listening centre where satellite communications and telephone conversations are monitored.

Kidnap suspect in court: The alleged leader of the group which kidnapped four western tourists in New Delhi was charged in court under India's anti-terrorist laws. Police said the man had confessed to membership of a Pakistan-backed Kashmiri Moslem group.

Child support agency reform call: MPs in the UK have called for reform of the widely-criticised Child Support Agency. Their key demand is that the agency take account of "clean break" divorce settlements which include cash and property.

Kenyan tycoon denied bail: Kenyan businessman Kamlesh Pattni, accused of stealing more than Ks2.8bn ($78.9m) from the central bank, was denied bail after the prosecution argued he might abscond.

Pru invites bidders: Prudential, Britain's biggest life insurer, has asked 10 banks to bid for its global custody business, which holds £40bn ($63.2bn) in UK and international securities. The banks are thought to include Chase Manhattan, Citibank, Barclays, Royal Bank of Scotland and Midland. Page 17

Lonrho meets today: The international trading group whose joint chief executives Tiny Rowland and Dieter Bock are at loggerheads, today holds its first board meeting since two of Mr Rowland's closest allies retired. Mr Bock tried unsuccessfully to oust Mr Rowland two months ago. Page 26

Director quits over project: Jennifer d'Abo quit as a director of Northern Ireland's Industrial Development Board. She said the IDB failed to answer her queries about legal and financial arrangements for a £157m ($255m) project by Hualon of Taiwan to build a Belfast textile plant. Page 16

Beyond the Milky Way: Astronomers in the Netherlands say they have detected a large galaxy hidden behind the Milky Way and believe the solar system could have more hidden neighbours.

STOCK MARKET INDICES

FT-SE 100:	3081.3	(-15.0)
Yield	4.13	
FT-SE Eurotrack 100	1318.81	(-15.22)
FT-SE-A All-Share	1530.92	(-0.4%)
Nikkei	19,758.65	(-165.83)
New York lunchtime:		
Dow Jones Ind Ave	3867.07	(+3.70)
S&P Composite	469.51	(+1.09)

US LUNCHTIME RATES

Federal Funds:	4 11/16%
3-mo Treas Bills: Yld	5.228%
Long Bond	93 15/32
Yield	8.075%

LONDON MONEY

3-mo Interbank	6 1/8%	(same)
Liffe long gilt future:	Dec 100 17/32	(Dec 101 3/32)

NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$17.235	(17.18)

Gold

New York Comex (Dec)	$385.5	(385.7)
London	$383.70	(383.75)

STERLING

New York lunchtime:		
$	1.63855	
London:		
$	1.6426	(1.6347)
DM	2.4548	(2.451)
FFr	8.4153	(8.3878)
SFr	2.0451	(2.0443)
Y	158.026	(158.161)
£ Index	81.1	(80.9)

DOLLAR

New York lunchtime:		
DM	1.5075	
FFr	5.1685	
SFr	1.258	
Y	97.28	
London:		
DM	1.4945	(1.4994)
FFr	5.1232	(5.1313)
SFr	1.245	(1.2506)
Y	96.205	(96.755)
$ Index	60.6	(60.8)

Tokyo close Y 96.40

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	Ekr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)	Esc225	Turkey	L30000
Germany	DM3.60	Lux	LFr65			UAE	Dh12.00

US currency hits post-1945 low of Y96.05 ■ Tokyo warning over recovery

Fed steps in to back dollar

By George Graham in Washington, William Dawkins in Tokyo and Philip Gawith in London

The Federal Reserve intervened repeatedly in support of the dollar yesterday and the US Treasury tried to talk the US currency up after it sank to Y96.05, a fresh post-1945 low.

The dollar's renewed weakness prompted Mr Masayoshi Takemura, Japan's finance minister, to warn that the country's economic recovery was under threat.

Mr Lloyd Bentsen, US Treasury secretary, said the dollar's dive was "inconsistent with the fundamentals of a strong investment-led recovery" in the US.

He said: "Continuation of recent foreign-exchange trends would be counterproductive for the US and the world economy. A stronger dollar will reduce inflation pressures, improve American living standards and promote investment."

He promised to monitor developments closely in co-operation with the other six members of the Group of Seven leading industrialised nations. However, apart from the Bank of Japan, which regularly buys dollars, the Fed was alone in its support of the currency. Traders estimated that it spent $500m-$1bn.

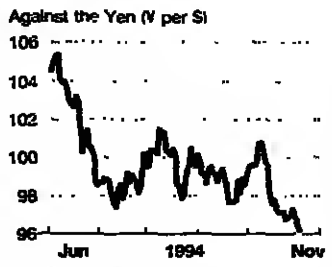
Its intervention was welcomed by Mr Hans Tietmeyer, Bundesbank president: "I welcome the fact that the American monetary authorities have clearly expressed their interest in a strong dollar."

Fed support helped to take the dollar back above Y97.75 in New York trading, and lifted it to DM1.52 from an earlier low of DM1.491.

Signs of continued expansion in yesterday's "Beige Book" report on US economic conditions

Dollar

Against the Yen (Y per $)



Source: FT Graphite

added to the dollar turmoil. The report alarmed financial markets, initially depressing the dollar, by renewing questions over whether the Fed has acted fast enough to head off inflationary pressures.

European stock markets were weighed down by the dollar's initial decline and by Tuesday's falls on Wall Street. In Paris, the CAC-40 index was 1.7 per cent lower, while the Dax index fell 1.3 per cent in after-hours trading. In London, the FT-SE 100 Index, having been 26 points lower, rallied on news of Fed intervention to end the day 15 points down at 3,081.3.

The intervention helped US stocks recover from early falls. At 1pm in New York, the Dow Jones Industrial Average was up 3.7 points at 3,867.07.

Since taking office at the start of 1993, the Clinton administration has been dogged by the perception that it was happy with a fall in the value of the dollar, a perception often abetted by senior officials' remarks. Mr Bentsen's strong statement yesterday was needed in part to offset the damage he had himself caused with recent remarks that seemed to suggest the US had no plans to intervene.

But analysts said the dollar would go lower without the active support of the Bundesbank and other central banks. Mr Avinash Persaud, head of currency strategy at J. P. Morgan in London, said: "I think the market is going to brush this aside unless it sees the Bundesbank come in."

There is also widespread agreement among analysts that the Fed will have to raise interest rates by at least 50 basis points, to arrest the dollar's decline. Some analysts believe a move may come as early as Friday.

Analysts said one of the factors behind the stronger yen was the better-than-expected performance of Japanese companies in the current results season.

Lex ......Page 16
Currencies ......Page 32
World stocks ......Page 36
London stocks ......Page 27

American politicians seek votes on global network

By Louise Kehoe in San Francisco

Political candidates in California have discovered that the information superhighway can be a fast and inexpensive route to voters. They are using the Internet, a global network of computers, to answer questions and deliver election campaign pitches in the run-up to next week's US mid-term elections.

Fed up with television campaign ads filled with more barbs than substance, thousands of computer users are going online to find out where the candidates stand on particular issues and to research details of their past records.

Over the past month, more than 5,000 people have logged on to the California Online Voter Guide, a non-partisan service funded by groups and businesses ranging from the California Teachers' Association to Pacific Bell, the regional telephone company.

Many more are accessing Project Vote Smart, a service sponsored by the League of Women Voters that provides voting records, campaign finance data and performance evaluations of candidates by special interest groups.

Several candidates are using electronic mail to communicate directly with voters. E-mail addresses for the two main gubernatorial candidates in California – incumbent Pete Wilson (Republican) and his challenger Kathleen Brown (Democrat) – have been widely published and their campaign staff regularly answer voters' questions.

Both have also personally participated in online chat sessions with subscribers to America On-line, CompuServe and Prodigy, the commercial online services. Ms Brown also has an electronic presence on the World Wide Web, the fastest growing portion of the Internet which provides easy ways to scan the globe for information resources.

"Having a presence on the Internet demonstrates that Ms Brown is looking to the future,"

Continued on Page 16

Russian Security Council secretary Oleg Lobov passes behind Boris Yeltsin before a council meeting devoted to the rouble crash Reuter

Top ministers targeted in Moscow reshuffle talks

Report by military chiefs may decide future of cabinet leaders

By John Lloyd in Moscow

A shake-up in the Russian government appears to be on the cards. Mr Ivan Rybkin, chairman of the state duma (lower house), said after a meeting with President Boris Yeltsin that a cabinet reshuffle would take place within two weeks.

A spokesman for Mr Rybkin said the posts discussed included those of the economics and justice ministers and "a range of changes amoog the deputy prime ministers". The economics portfolio is held by Mr Alexander Shokhin, a reformer who is thought to be vulnerable but may retain his parallel post as deputy prime minister.

The meeting came after details emerged of the report on "Black Tuesday" – October 11, when the Russian rouble collapsed by 25 per cent against the US dollar – by the Security Council commission, which is staffed wholly by military and security chiefs.

The presidential press service says the report accuses a number of senior public servants of "ill-timed, if oot incompetent, decisions" and says that there is "insufficient co-ordination between the federal bodies of the executive branch". It orders the government to take immediate control of the currency exchange rate and "consolidate the legal backbone of the financial, including the currency, market".

The Interfax news agency, quoting "well-informed sources", said the council'a report names the economics and finance ministries, the central bank and several commercial banks as having "profited directly and considerably from destabilising the national financial system".

The acting finance minister and the governor of the central bank both resigned after the collapse of the currency last month.

The report says, according to Interfax's sources, that the collapse will "entail long-term and deep negative consequences for the Russian economy" because foreign investors "now doubt the expediency of investing in Russia". It recommends continuing investigation and, if necessary, criminal proceedings.

Mr Rybkin said the recent high-level departures would be followed by "bringing to book some of their deputies". On Mr Shokhin's fate, he said "it will be decided by the government".

The Itar-Tass news agency said the discussion with Mr Yeltsin took place in the context of a state duma vote of no-confidence in the government last week, which failed by only 30 votes. Only 54 deputies from 450 actively voted for the government.

It also comes after a Moscow by-election last weekend which was won by the candidate backed by the ultra-nationalist Liberal Democratic party, and local elections in St Petersburg which saw a strong showing for the communists.

Neither the nationalist nor the communist parties have any representative in the cabinet.

Rumours abound about who would replace Mr Shokhin. Since his removal would come following a report drawn up by representatives of the security services and the military, it is widely assumed that a more conservative figure would emerge.

Grachev's job at risk, Page 2

Quaker Oats to pay $1.7bn for US soft drinks group

By Richard Tomkins in New York

Quaker Oats, the US food and drinks group, has agreed to pay $1.7bn in cash to acquire Snapple Beverage, a company that has changed the shape of the US soft drinks market with its highly successful "new age" iced teas and fruit-flavoured drinks.

At the same time, Quaker said it would start seeking buyers for its European pet food business, maker of Felix cat food and Fido dog food, and its Mexican confectionery business, maker of La Azteca chocolate.

Snapple, based in Valley Stream, Long Island, has expanded rapidly in the US by selling bottled drinks that appeal to a health-conscious public. Typical products include Raspberry Iced Tea, Amazin' Grape Juice and Mango Madness Cocktail.

Annual sales jumped from $44m in 1990 to $516m last year. Recently, however, Snapple's profits and share price have been hit by the cost of expansion and by competition from companies such as Coca-Cola and Pepsi-Cola, which have jumped on to the alternative drinks bandwagon. Yesterday Snapple reported that net profits had sunk from $26.9m to $7.1m in the quarter to September.

Chicago-based Quaker Oats, for many months the subject of bid speculation, has been under pressure to realign its businesses because of its lacklustre financial performance. Last week the company reported a fall in net income from $91.4m to $57.3m in the quarter to September, blaming low European pet food sales and increased marketing costs, especially for its Gatorade sports drinks in North America.

Lex ......Page 16

Yesterday Mr William Smithburg, Quaker's chairman and chief executive, said the combination of Gatorade and Snapple would create North America's largest "good-for-you" drinks company, with market leadership in teas, juice drinks and sports drinks.

Quaker expects to benefit from the acquisition by feeding Snapple's products through Gatorade's distribution channels. At present, Snapple sells mainly in convenience stores and delicatessens, and has barely 1 per cent of its sales outside the US. Gatorade, in contrast, is well established in supermarkets and sells in 25 countries.

Mr Smithburg said Quaker was selling its European pet food business and Mexican chocolate businesses because it wanted to concentrate on faster-growing, higher-margin businesses.

The European pet foods business has annual revenues of about $800m and Mexican chocolate has annual revenues of about $100m. Mr Les Pugh, an analyst at Salomon Brothers, the Wall Street investment bank, said the two would probably fetch about $700m, most of it coming from the pet foods business. He cited Nestlé, the biggest European food company, as a possible buyer.

Quaker's shares sank $5 1/4 to $69 1/4 after Mr Smithburg acknowledged that the transactions would dilute earnings per share in the year to June 1996. He said the purchase of Snapple should start to benefit earnings in the year to June 1998.

CONTENTS

Moscow stance on Bosnia worries Nato

By Bruce Clark in London and Laura Silber in Belgrade

Nato is worried by Russia's cool reaction to its tough new procedures for carrying out air raids in Bosnia, according to western diplomats. Moscow's position is one of several factors that could cloud the prospects for further joint action by the contact group on Bosnia – the US, Britain, Russia, France and Germany.

Diplomats said Russian diplomats in Brussels had been briefed on the new air strikes policy as soon as it had been formally endorsed by Nato ambassadors last Friday.

Nato officials had tried to assure their Russian counterpart that the policy did not take away the "dual key" system under which any bombing raids in Bosnia have to be approved by the United Nations as well as Nato.

However, subsequent Russian comments – suggesting that Nato was grabbing more power for itself – indicated that these assurances were not accepted.

Apart from the air strikes policy, strains in the contact group have been highlighted by its members' contrasting reactions to the recent offensive by the Moslem-led Bosnian army. The offensive has been endorsed in Washington and criticised in Moscow, while British officials have avoided commenting either way.

Bosnian Serb forces claimed yesterday to have halted the government's offensive south of Bihac in northwestern Bosnia. UN officials reported intensifying mortar, machine-gun and artillery fire around Bihac, which is supposed to be a UN-protected safe area.

On Tuesday night, Mr Radovan Karadzic, Bosnian Serb leader, said the Moslems would be "trounced militarily". He blamed Belgrade for the biggest Serb setbacks since the fighting started 31 months ago.

President Slobodan Milosevic of Serbia imposed an embargo against Bosnian Serbs three months ago, and he is also trying to prod rebel Serbs from neighbouring Croatia into making a deal with Zagreb.

Mr Karadzic said the losses were "largely the consequence of the... blockade". Sources close to the leadership yesterday blamed the defeats on "treasonable conduct by some Bosnian Serb officers dictated from Belgrade".

It was unclear whether Mr Karadzic's warning of a "fifth column" was aimed at high-ranking Bosnian Serb officers who, despite the embargo, still receive their pay from the Yugoslav army. He said that "anyone who spread rumours or lies about a Serbian sell-out would be shot".

South of Sarajevo, Bosnian Croats and Moslems co-ordinated an attack on the strategic plateau round Kupres, known as the "door to Bosnia". The Bosnian Croat entrance into the war casts a pall over peace talks set to resume today between Zagreb and rebel Serbs from Croatia.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE: Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK: Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

Cloud over Grachev after deputy is fired

By John Lloyd in Moscow

The future of General Pavel Grachev, Russia's defence minister, was in question yesterday following the sacking on Tuesday of his deputy, Gen Matvei Burlakov. His deputy was removed after allegations of corruption in the Western group of armed forces which he had commanded until September.

Mr Sergei Yushenkov, head of the state duma (lower house) defence committee, said "the next logical step should be the resignation of Grachev. This would accord with the officer's code of dignity and would help the moral cleansing of the army".

President Boris Yeltsin's decision to fire Gen Burlakov "shows civilian control over the army exists and that the president is listening to press and public opinion".

Mr Yushenkov's remarks were underscored by Gen Alexander Lebed, commander of the Russian 14th army in the Moldovan province of Trans Dnestr and the most popular figure in the forces - according to polls taken of officers.

He told the Itar-Tass news agency he welcomed Gen Burlakov's dismissal and said the sooner the army was cleansed of corruption "the stronger the army and the stronger the Russian state will be".

The army's top command is clearly in turmoil. Gen Grachev, appointed after playing a key role in foiling the attempted putsch in 1991, has been close to Mr Yeltsin and may still have enough influence to survive. Ms Elena Agapova, an aide, said last night that the decree removing Gen Burlakov "came as no surprise.... Gen Burlakov has repeatedly requested the defence minister to relieve him of his duties".

Mr Yuri Yerin, former military prosecutor for the Western group, said yesterday that Gen Grachev had been cleared of any corruption by "numerous" commissions and inquiries. The purchase with extra-budgetary funds of two Mercedes cars for his use was "not improper". However, Gen Grachev is not, and never has been, the defence establishment's favoured candidate for minister - and his alleged acquiescence in corruption is a serious weakness.

Communist and nationalist politicians have long demanded his resignation because he ordered his tank units to fire on the Russian parliament last October in obedience to Mr Yeltsin's requests. Now the reformist parties have deserted him following the murder of a young journalist three weeks ago who was investigating corruption in the Western group.

Though popular, Gen Lebed is regarded by the top brass as too inexperienced for the top job. Mr Yushenkov named as possible candidates army chief of staff General Mikhail Kolesnikov, former Soviet defence minister Marshal Yevgeny Shaposhnikov, and Gen Andrei Nikolayev, chief of the border guards - which are not under Gen Grachev's control.

General Pavel Grachev, whose future as Russia's defence minister has been put in question Reuter

Poles read Russian anti-Nato signals

Christopher Bobinski on how Warsaw sees the postponement of Chernomyrdin's visit

The last-minute postponement of a long delayed visit to Warsaw by Mr Victor Chernomyrdin, the Russian premier, has been interpreted in Warsaw as confirmation that a Russian effort has begun to block new US initiatives on Nato membership for Poland.

Tuesday's decision, ostensibly caused by the Polish government's failure to make amends for a recent incident when police at a Warsaw railway station beat several Russian travellers, was sudden and unexpected. Teams of experts had been in Warsaw all week preparing for the two-day visit.

Mr Yuri Kashlev, the Russian ambassador, stressed in a newspaper interview yesterday the depth of Russian opposition to any expansion of Nato to the east. "In our view, having the central European countries join Nato is not a rational option," he said. "We think such a development would reduce our own security."

Mr Chernomyrdin was to have signed agreements on a new gas pipeline across Poland as well as a mutual write-down of Comecon-era debts. The latter covered the $2bn and 4bn transferable roubles owed by Poland and the $330m and TRbs75bn Russian debt to Poland. The debt deal is seen as a way of wiping the slate clean of past problems and paving the way for future trade growth.

Polish sales to Russia rose by 68 per cent to $623m over the first eight months of this year but remain a mere 6 per cent of its total exports. In the communist era the Soviet Union took more than a third of Polish exports. Similarly, Polish imports, at $850m, rose by 40 per cent above last year's levels but still account for only 6.5 per cent of total imports.

After this year's trade growth, Russia's share in Polish trade turnover has returned to 1992 levels, but that was when the slump in mutual trade was already well established.

In spite of the postponement, Mr Chernomyrdin is believed to have been keen for the visit to go ahead. He recently made the highly symbolic gesture of travelling to Katyn near Smolensk, burial site of thousands of Polish officers murdered by the NKVD, forerunner of the KGB, on Stalin's orders in 1940. He intervened to end opposition by local officials to Polish efforts to construct a cemetery for the murdered officers. The gesture showed that Mr Chernomyrdin, like President Boris Yeltsin, is keen for the two countries to put their troubled past behind them.

Russia needs a friendly Poland for strategic reasons. Routing the planned gas pipeline across Belarus and Poland to Germany, for example, would avoid Ukraine, which has in the past threatened to block Russian gas sales to the west.

The pipeline, whose Polish section will cost $2.5bn, will raise annual sales of Russian gas in Poland to 14bn cubic metres. Mr Chernomyrdin's visit was needed to sign a protocol confirming the commitment as well as to clarify financing arrangements.

The Russian ambassador also confirmed in his interview that Russia wants Warsaw to open a new crossing point on the Polish-Belarus border which would enable Russians to travel to and from their Kaliningrad enclave without going through the Baltic states.

Yesterday, Mr Andrzej Olechowski, Poland's foreign minister, said there could be no question of apologising for the incident at the railway station until the case had been thoroughly investigated. But the government is expected to come under pressure to conciliate Russia from local businessmen keen to see an expansion in bilateral trade.

Baltic neighbours feel chill from east

By Anthony Robinson

The chill in Polish-Russian relations symbolised by the last-minute postponement of prime minister Victor Chernomyrdin's official visit to Warsaw this week may be part of a new hardening in Moscow's relations with with its Baltic neighbours.

In London yesterday the Lithuanian prime minister, Mr Adolfas Slezevicius, said that his country is facing unexpected difficulties in its negotiations with Russia over a military transit agreement.

A law regulating the movement of Russian troops and equipment through Lithuania, en route to and from the Russian Baltic province of Kaliningrad, was due to come into force in September. But Russian negotiators have objected to the troop transit rules being incorporated into a general law which also regulates the transport of hazardous materials across Lithuania. This Baltic state sandwiched between Poland and Belarus is on the most direct route from Russia to Kaliningrad.

Moscow, meanwhile, is seeking an alternative transit route to its isolated province which would avoid the Baltic states entirely and go through Belarus and north-eastern Poland. This was to have been one of the subjects for discussion at the aborted Polish-Russian summit meeting.

Kaliningrad, the former German port city of Königsberg, and the surrounding province, was occupied by Soviet forces at the end of the war. Moscow has retained control, using it as a staging post for the repatriation of troops and equipment from former east Germany and Poland. Some 100,000 Russian troops are believed to be in the enclave. Lithuania, together with other Baltic basin states, is hoping to persuade Moscow to demilitarise both port and province over time.

Mr Slezevicius, a former minister under the Soviet-era government, and whose Democratic Labour party heavily defeated the nationalists led by Mr Vytautis Landsbergis in the 1992 elections, was in the UK to encourage greater trade and investment.

A priority project is construction of a $100m (£63.2m) oil pipeline from the port of Klaipeda to the refinery at Mazeikia to reduce dependence on Russian oil. Lithuania is also seeking $150m to modernise the refinery whose 12m tonnes a year capacity is currently less than half used. Shell has just completed the first of a string of planned petrol service stations.

Last month the IMF approved a $201m standby agreement loan in support of economic reforms which have led to rapid privatisation and a resumption of economic growth. In April Lithuania pegged the Litas, its internally convertible currency, to the US dollar. Inflation is expected to fall to 40 per cent this year from 189 per cent in 1993 and gross domestic product is expected to rise by 1.5 per cent in 1994 and by up to 6 per cent next year.

Ukrainians take wintery road to market

Matthew Kaminski finds despair in Kiev as economic reforms send prices soaring

At the Khreshatyk metro station in central Kiev, a new monthly transport pass was pasted behind a grimy window, with the price scribbled in pencil. "Today it's 175,000," a middle-aged woman laughed scornfully. Last month it was 20,000 coupons (about 20 US cents). "I don't know how we're going to live through this," she said.

Across Kiev this week, drastic price increases affected transport, rents, utilities and food, along with other retail goods under an IMF-tailored austerity programme unveiled by President Leonid Kuchma last month.

The price increases are the clearest indication yet that painful "shock therapy" market reform, which was pioneered by Poland five years ago and is already transforming the economy of much of eastern Europe, has finally made it to Ukraine. Earning an average monthly wage of around 2.3m coupons (about $23), Ukrainians are in for a painful passage into the market economy.

But if Kiev's leaders – emulating their neighbours in Warsaw, Prague and Tallinn – can ignore public grumbling long enough to put into place the remaining pieces of a comprehensive reform programme, their country could have a chance to join in the economic boom now taking off in the more progressive nations of eastern Europe.

This week's metro fare increase was accompanied by a drastic 10-fold rise in the price of trolley and tram tickets, and a seven-fold increase in rents, and utilities. Food prices varied across regions, but with state subsidies completely turned off they are also set to rise quickly.

The first wave of price increases is due to be followed by another on January 1. Ukrainian wages and pensions went up last month, but only to 80 per cent of expected price increases. "It's impossible to live on our salaries," said Mrs Olha Stepanovich, a teacher who shops at the popular Vladimirsky market. "Only a businessman can afford tomatoes for 150,000 coupons per kilogram. So most people just do not eat well."

Ukraine's social fabric is already stretched thin. The country has Europe's lowest minimum wage and highest hidden unemployment rate.

The average real wage is down 70 per cent since 1990. However, many supplement their incomes in the black economy which, by one count, makes up 60 per cent of economic activity.

However, as in Poland during "shock therapy", people expect to improvise and survive. "It's hard but we get by," said Mrs Valentina Mykhailovych, a pensioner, standing outside a state bread store on Karl Marx Street. "My son has a dacha outside Kiev where he grows vegetables. So my husband and I get fresh potatoes and carrots."

Factories have been hit hard, with higher oil and coal prices and an inability to acquire cheap dollars to import energy. Many enterprises are expected to close and lay off workers. State spending cuts also are needed to reduce Ukraine's large budget deficit.

Reformers hope the pain will be brief – and checked by high interest rates to stop inflation. They are also relying on foreign capital being lured back as the currency stabilises and supplies of Russian and Turkmen energy are guaranteed – bought with western aid such as the $371m IMF loan approved last week.

But Mr Kuchma recognises the public disquiet. "To my great regret, ordinary people will not be affected by the arrival of this small amount [the IMF loan]," he said. "That is why I appeal to our people to have more patience." The president also knows western donors, sitting on up to $4bn in aid, have little patience. Ukraine must implement the first radical macroeconomic reforms in the next nine weeks to qualify for further IMF aid. Talks on a $1.5bn stand-by begin later this month.

But the political opposition is gathering steam, too. Parliament, dominated by a communist coalition, called an emergency session for tomorrow to discuss the price rises. Organised labour, quiet since last year's coal strikes, this week threatened to walk out in protest against price increases and low, or often unpaid, wages.

Mr Kuchma yesterday succeeded in convincing municipal leaders to implement bread price increases in all regions after widespread resistance to implementing his decrees.

At the Karl Marx bread store, the night delivery man shrugged his shoulders as he unloaded the daily rye: "Sadly, all these changes are needed."

EUROPEAN NEWS DIGEST

Czech official on graft charge

A senior Czech privatisation official has been arrested in a "sting" operation by anti-corruption police. Mr Jaroslav Lizner, chairman of the Centre for Coupon Privatisation, which processes applications from investors seeking to buy stakes in state companies, was arrested outside a Prague restaurant on Monday night carrying a briefcasa containing Kc8.3m ($305,000). He is to be charged with accepting bribes. Three others were arrested and later released. Mr Lizner's arrest has reopened allegations of high-level corruption in the Czech Republic's privatisation programme, which has seen billions of dollars of state assets sold to private investors. A privatisation ministry official is in prison after being convicted of bribery in connection with a privatisation deal. Mr Vaclav Klaus, the Czech prime minister, described Mr Lizner's arrest yesterday as "a bolt from the blue" but denied that it would have a negative impact on the privatisation programme, due to be completed early next year. *Vincent Boland, Prague*

German holiday ruling

Germany's federal cartel office yesterday recommended that two of the country's largest holiday agencies be prevented from having the exclusive right to block book rooms in 15 Spanish hotels because it hinders competition. Touristic Union International (TUI) and NUR Touristic said they would fight the decision. The cartel office's recommendations follow complaints by other German travel agencies that TUI and NUR had stifled competition in the Canary and Balearic Islands last year by block-booking hotel beds for almost the entire season. Alltours, a German-based agency, said it had been impossible to reserve rooms even in other hotels because of the prices offered by TUI and NUR, which they claimed were beyond what it could offer. The cartel office recommendation coincides with a surge of renewed German interest in Spain, and in the islands particularly. This is because tens of thousands of holiday-makers switched their vacations from Turkey, a favoured resort, after attacks on Germans in the region. *Judy Dempsey, Bonn*

Strike grounds Iberia flights

Iberia, Spain's financially crippled state airline, has been forced to ground most of its flights today as unions stage the first of two 24-hour strikes this month. The unions are objecting to the company's refusal to make up back pay that was due at the end of October and to its plans to reduce salaries by an average of 15 per cent over the next two years. The airline cancelled all its international flights serving routes that are covered by other airlines, as well as 70 per cent of its domestic flights. Iberia is on course to lose Pta44bn $352m) this year. The industrial dispute could delay its efforts to gain European Union anthorisation for fresb public funding of at least Pta125bn. Unions say Pta200bn will be required to assure future viability. A second strike is planned on November 11. *Tom Burns, Madrid*

East German jobs warning

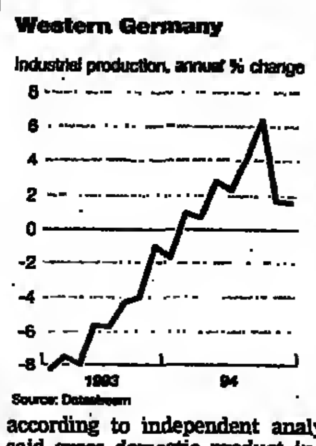
Between a quarter and a third of east Germany's labour force will be without permanent work by 2010 unless productivity and competitiveness improve sharply. The east German economy will have to become much more export-oriented to create new jobs, concludes a joint study by the Halle Institute for Research and the Hamburg-based Körber Foundation. The study contradicts more optimistic forecasts released last week by the six economic institutes which advise the federal government. These showed that unemployment in east Germany had fallen to about 15 per cent of the 6.6m-strong labour force and should stabilise at that level. However, the Halle-Körber study says this figure could rise if the privatised sector in particular is not supported by more risk capital. The report says productivity is still only 40 per cent of west German levels. *Judy Dempsey, Bonn*

Slower growth for Norway

Norway's economy will expand more slowly next year, according to Mr Torstein Moland, governor of the Bank of Norway. At a seminar in London yesterday Mr Moland forecast GDP growth in 1995 would fall to between 2.5 and 3.0 per cent, as growth in consumption became more subdued. The rise in consumer prices was down to 0.9 per cent in April but has since grown to 1.7 per cent, reflecting an increase in excise dnties implemented in July. Mr Moland said that if wage inflation could be limited to 3.0 per cent in 1994 and 1995, overall inflation would remain at 2.0 per cent next year. Traditional exports, excluding oil and shipping, have risen in value terms by 12 per cent this year, according to Mr Moland. The improvement in the economy has reduced Norway's vulnerability to oil price fluctuations and the current account would remain in balance next year, he said. *Karen Fossli, Oslo*

ECONOMIC WATCH

Industrial output on the rise



Weat German industrial production gathered pace again in September after falling during August, according to provisional data from the economics ministry. Although preliminary calculations showed output fell a seasonally adjusted 0.2 per cent during the month, after a revised 2.6 per cent month-on-month drop in August, the ministry said it expected the latest figures to be revised upwards by "a good two percentage points". This implied production increased by more than 3 per cent in comparison with September last year, according to independent analysts. James Capel in London said gross domestic product in the region appeared to have grown only 0.6 per cent in the third quarter after 1 per cent in the second. However, other data on business confidence and economic developments in export markets elsewhere in Europe suggested the apparent weakening was merely a lull within a strong underlying growth trend. *Christopher Parkes, Frankfurt*

■ The Greek unemployment rate was 6.1 per cent in September against 6.7 per cent the previous month and 5.9 per cent a year earlier.

■ Romania's trade surplus fell to $75.9m in September from $92.6m in August. Unemployment rose to 10.8 per cent.

Dutch to cut 3,000 jobs in telecoms

By Ronald van de Krol in Amsterdam

The Dutch telecommunications and postal group, KPN, said yesterday it is to cut 3,000 jobs over the next three years in its telecommunications business. It is the first round of job losses since the company was partially floated on the Amsterdam stock exchange in June.

PTT Telecom, KPN's telecommunications arm, said the job losses, representing nearly 10 per cent of its workforce of 31,981 people, were necessary to boost productivity.

It hopes to be able to shed most of the jobs through natural attrition, avoiding the need for large and potentially controversial forced redundancies.

"Increasing productivity is necessary if the company wants to continue delivering high-quality services at low prices in a fully deregulated telecommunications market," PTT Telecom said.

The job loses should boost productivity, measured by the number of telephone lines per employee, by 15 to 20 per cent by the end of 1997. By pursuing this goal, PTT Telecom said it wants to emulate the "Baby Bell" telephone companies in the US, which have achieved an average 6 per cent annual improvement in prodnctivity over the past few years.

The telecommunications subsidiary said the job losses were a continuation of restructuring begun in 1990.

PTT Post, KPN's postal company, has cut around 6,000 jobs since 1990 and now employs around 38,411 people. KPN is the Netherlands' largest private-sector company.

The job losses in telecommunications will come across the board but will concentrate specifically on employees in telecommunications maintenance. Digitalisation of the Dutch telecommunications network means that fewer people are needed for maintenance work.

However, PTT Telecom said it expects to hire additional employees in future in "customer-contact" jobs such as sales and marketing, as well as in mobile communications and new media.

The Dutch state's sale of a 30 per cent stake in KPN was the country's largest ever flotation, raising Fl 6.9bn (£2.5bn) for the government. A second tranche of shares is scheduled to be sold by the end of 1997.

Anglo-German panel questions EU regulations

By David Marsh
European Editor

A panel of British and German ousinessmen yesterday took aim at European Union employment rules in a joint drive to eliminate unnecessary Brussels regulations.

A 10-man Anglo-German deregulation group, set up by the London and Bonn governments, drew up a "substantive list" of Brussels measures seen as unhelpful to business, according to Mr Francis Maude, who led the UK delegation.

Mr Maude, a former financial secretary to the UK Treasury, who now works for the US bank Morgan Stanley, said the businessmen on the panel agreed that proposed new EU employment legislation was "immensely damaging".

This view was backed by Mr Johann Eekhoff, state secretary at the Bonn economics ministry, who led the German delegation. He said proposed Brussels rules on working-time and part-time working were "not flexible enough."

The panel, which examined measures affecting in particular the chemicals, transport and food production sectors, will send its findings to the two governments, which will then pass them on to Brussels.

The UK businessmen included representatives from the Asda supermarket group and brewers Youngers, while the German side fielded senior figures from chemicals company BASF and car group Mercedes-Benz.

Mr Eekhoff said there was particular concern that undue Brussels bureaucracy could spur European companies to transfer activities outside the EU.

Along with planned Brussels rules on working-time and part-time working – neither of which have yet passed into law – Mr Maude said the panel also criticised proposed tightening of legislation on transport of hazardous substances.

Mr Eekhoff - whose ministry is traditionally the most active proponent of free-market ideas in the Bonn government - congratulated Britain on being "more successful than we are on deregulation and privatisation."

This was music to the ears of Mr Maude, who deregulated himself in 1992 – after losing his parliamentary seat – and now is in charge of international privatisation operations at Morgan Stanley.

Italians protest against state TV changes

By Robert Graham in Rome

A chorus of protest has greeted the reorganisation of the editorial management of the RAI, Italy's state broadcasting organisation, carried out by the appointees of the government of Mr Silvio Berlusconi.

A group of prominent intellectuals and broadcasters have petitioned President Oscar Luigi Scalfaro to intervene over what they claim are curbs on the freedom of expression.

The opposition, beaded by the former communist Party of the Democratic Left (PDS), has protested that the government has tightened its hold on information; and unions working at tbe RAI have threatened to take court action against the management.

One of the new board members, Mr Alfio Marchini, personally endorsed by tbe speaker of the chamber of deputies in the Italian parliament, has also resigned in protest.

The reorganisation, completed on Tuesday, came almost 45 days after the first editorial changes were introdnced and involved tbe removal of some personnel only recently appointed.

Government supporters have justified the appointments and the overt political interference on the grounds that the RAI has always been politically controlled. The appointments involve programme controllers and channel director generals for the RAI's three TV channels.

The populist Northern League, usually an opponent of its coalition colleagues on media matters, bas been noticeably silent over the past 24 hours, not least becanse some of its appointees have gained a foothold and the third television channel will have a federal/regional framework.

The complaints follow three main lines. The first is that the right-wing coalition government has deliberately placed its own sympathisers in the key positions, regardless of individual professional qualifications. The neo-fascist MSI/National Alliance has done well in securing a substantial foothold; but at the same time a number of persons once identified with Socialist leader Bettino Craxi and recycled as Forza Italia are back in power.

A second line of complaint is that the financially troubled RAI risks being seriously weakened by the changes so aiding the competition – the three television channels of prima minister Berlusconi's Fininvest. This in turn raises the running sore of Mr Berlusconi's conflict of interest.

The third issue concerns the absence of any independent control over state-run television. The management board is headed by Mrs Letizia Moratti, a prominent stockbroker brought in by the government. The board in turn is monitored by the parliamentary media committee that is dominated by the governing coalition.

Balladur suffers political setback but underlying employment trend is good

French jobless reaches record high

By Andrew Jack in Paris

French unemployment levels for September jumped to a record high of 3.35m, 12.7 per cent of the labour force, according to government statistics released yesterday.

The figures were disappointing news for the conservative government of the prime minister, Mr Edouard Balladur, whose undeclared presidential ambitions rest on his ability to prove he can bring down unemployment, the main concern of French voters.

However, economists noted that the poor figures disguised an improving underlying trend, and said there was no question but that unemployment would be on an overall downward path in the run-up to naxt April's presidential election.

The government did its best to play down the significance of the rise, although some commentators expressed concern at the high rate at a time of economic recovery within the country.

The seasonally-adjusted number of people seeking work rose by 13,900 people or 0.4 per cent to 3,351,900 during the month, following an increase of 0.5 per cent in the August.

Mr Michel Graud, the minister of labour, said the increase reflected a number of people joining the workforce for the first time who were inspired to apply for jobs because they perceived the economy to be recovering.

He said that much of the rise was because of women entering the workforce.

Mr Giraud said the government was sticking to its forecast that unemployment would stabilise at the end of the 1994 and fall in 1995, a view that economists said they still believed.

However, the rise was criticised in the French parliament by Mr Martin Malvy, the leader of the socialist group, who said it showed "the bankruptcy of the solutions put in place by the government".

Mr Malvy said the jobless figures cast doubt on Mr Balladur's ability to deliver on a target of cutting 1m from the jobless roll in the next few years and 200,000 in 1995 alone. "How can one, in these conditions have the slightest faith in the promises of Mr Balladur as a candidate (for president)," he said.

Reactions to the figures from analysts were mixed yesterday. Mr Gwinn Hacche, a European economist for James Capel, said: "This is a bit disappointing. We had expected unemployment to remain unchanged but this is a new record."

He said it was surprising to see the increase at a time when there was strong economic recovery in France above the levels in much of the rest of Europe, and reflected an underlying high level of structural unemployment in the country.

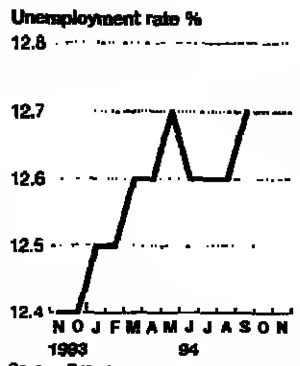
Mr Haccbe said there was a "worrying trend" of structural unemployment "ratcheting up" after each recession in France, aided by a minimum wage and a generous social security system.

"The government must be finding it increasingly difficult to find new schemes especially for the young unemployed," he said. "The budget deficit means they cannot embark on general reflation and it may favour Mr Jacques Chirac who has called for more domestic action to tackle joblessness."

However, Ms Esther Baroudy, senior economist at Crédit Lyonnais, said: "It looks like things are going the government's way.

"The trend is really improving. We are seeing a stabilisation rather than any dramatic increase. What influences consumer confidence is the rate of change, not the absolute numbers."

France



Source: Datastream

Swedish fiscal package targets debt

By Christopher Brown-Humes in Stockholm

Sweden's Social Democratic government yesterday promised new measures to stabilise the country's fast-growing debt, saying the moves would reduce the country's budget deficit and bring down interest rates.

In a fiscal package announced yesterday, the government inclnded SKr31.6bn (£2.7bn) in tax increases and SKr25.5bn in spending cuts, SKr6bn more than tbe SKr51bn "budget strengthening" total outlined by tbe party in the run-up to the September election which brought it to power.

A further SKr20bn of unspecified new measures, mainly spending cuts, will be presented in Sweden's January bodget. Mr Göran Persson, the finance minister, said the proposals sbould be sufficient to enable Sweden to stabilise central government debt by 1998 or even earlier.

But the markets took a more sceptical view and some commentators sngeested further savings would be needed. Bond yields rose a few basis points.

The package was denounced by Mr Cari Bildt, ieader of the oppositinn Moderate party, who called it "the higgest tax increase in Swedish modern history" and a return to the "failed" Social Democratic policies of the past.

The Federation of Swedish Industries regretted the emphasis on tax increases and the delay in implementing badly needed savings. The size of Sweden's budget deficit, projected at 13 per cent of gross domestic product in the current financial year, and the growth in state debt are the main symptoms of the country's financial crisis. The difficulties have led Moody's, the US rating agency, to consider downgrading Sweden's debt rating.

The minority Social Democratic government hopes to get the SKr57.1bn package through parliament with the support of the former communist Left party.

The government forecast GDP growth of 2.5 per cent in 1994, rising to 3.4 per cent next year. This is a more optimistic view of tbe ontlook than most independent commentators have taken. Inflation is forecast at 3.0 per cent next year while unemployment, excluding those on training schemes, is expected to fall to 6.9 per cent from 8.0 per cent in 1994.

Mr Lars Heikensten, chief economist at Svenska Handelsbanken, said the government could not have risked more drastic measures yesterday in the run-up to Sweden's referendum on EU membership on November 13. But he believed the government was "taking a risk" by not proposing tougher measures in January.

Mr Persson urged Swedes to vote Yes to EU membership, warning that the economic costs of staying outside were greater than those of joining. Membership wonld cost Sweden around SKr20bn a year, bnt he said this would largely be funded by the groups which would most benefit from membership.

A year of divided loyalties

US MID-TERM ELECTIONS
November 8

This is the season of falling leaves, struggling candidacies and the frantic search for political endorsements. Rarely, however, have there been quite so many striking endorsements which depart from political norms. The big questions are whether this year's batch will make a difference in key races, the extent to which they have been dictated by local circumstances and candidacies and, since the majority of endorsements have been of Democrats by prominent moderate Republicans, if there is a revolt brewing against the opposition's dominant right-wing.

Mr Ross Perot, who admits to no party allegiance, joined the parade on Tuesday by coming out for Ms Ann Richards, the Democratic governor of Texas whose re-election struggle against Mr George W Bush Jr, son of the former president, is too close to call.

The immediate interpretation of the Texas billionaire's endorsement is that it was a further manifestation of his animus for the Bush family so evident in the 1992 presidential election and since exacerbated by some acid comments in Mrs Barbara Bush's memoirs.

Mr Parot, whose political organisation, United We Stand, has not been a coherent force this election year, has generally urged a vote for Republicans in the November 8 mid-term elections and most of his supporters are identified with conservative positions. So he will spend this weekend campaigning in Washington state for the opponent of Mr Tom Foley, Democratic Speaker of the House. But he has also endorsed the re-election of Mr Roy Rohmer, the Democratic governor of Colorado.

Other endorsements to catch the eye include the Republican mayors of New York and Los Angeles backing the Democratic candidates for governor and the Senate respectively, though, in California, Mayor Richard Riordan also came out for Governor Pete Wilson, the Republican incumbent.

Rarely have there been quite so many endorsements departing from political norms, writes Jurek Martin

Virginia has seen the most conspicuous variation on the theme with Republican stalwarts from the Reagan and Bush administrations, joined by Mrs Nancy Reagan, condemning Mr Oliver North, the Republican Senate candidate.

The conspicuous exception has been Mr James Baker, former secretary of the treasury and state departments, who may be eyeing a presidential run of his own in 1996.

Mr Jack Kemp and Mr Bill Bennett, cabinet secretaries undar President Bush, cama out sharply against the Californian proposition that would deny social services to illegal immigrants. This was in spite of the fact that Governor Wilson has made support for the initiative a centrepiece of his campaign.

Opposition to hard-right candidates has also surfaced from well-known local Republicans in Minnesota, Michigan, Pennsylvania and Iowa. But a contrary trend is observed in some newspaper editorials, with the Washington Post and the Los Angeles Times, both generally liberal in outlook, coming out, respectively, for Republicans as mayor of the nation's capital and for governor of California.

Conservative candidates have also been endorsed by powerful lobbies. The National Rifle Association, for example, is seeking its revenge on those in Congress who supported gun control.

The impact of endorsements has been varied. Mayor Rudolph Giuliani's backing seems to have helped turn New York Governor Mario Cuomo's campaign around. When it came early last week, be was behind Mr George Pataki, the Republican, but polls out in the last 24 hours put him 12-18 points ahead.

There is no polling measure yet of Mr Riordan's Sunday support for Senator Dianne Feinstein, holding a slim lead over Congressman Michbael Huffington, but it certainly cannot harm her in southern California, where she is weakest. Governor Wilson now holds a solid lead over Ms Kathleen Brown, even though support for the anti-immigrant proposition, still likely to pass, has been falling.

Both mayors argued the toss that Mr Huffington and Mr Pataki, if elected, could not be relied on to help their cities. Mr Giuliani was also motivated by dislike of Senator Al D'Amato, the New York Republican who is Mr Pataki's patron.

A Texas poll yesterday gave Governor Richards a small three-point lead over Mr Bush, but it was taken before Mr Perot's endorsement. In Virginia, diebard supporters of Mr North, in a virtual dead heat with Senator Charles Robb, seem impervious to advice from Republican grandees. In Michigan, Governor John Engler is on a cakewalk to re-election.

In Washington, DC, few think the Post's endorsement of Mrs Carol Schwartz can prevent the return to city hall of Mr Marion Barry, a prospect which so horrifies residents of the city's only predominantly white ward that a semi-serious movement has been launched to secede to Maryland.

More broadly, Democrats have taken some heart from Republican ideological divisions, with President Bill Clinton himself doing his best this week to play them up in the company of Democratic candidates who once spurned him. But, mostly, it is the Democrats who are on the defensive and the Republicans who are more likely to vote.

US economy continues to expand

All regions of the US are continuing to expand, and higher prices are starting to work their way into the economy. the Federal Reserve said in its "beige book" survey of economic conditions, writes George Graham in Washington.

The beige book, which is released two weeks before each meeting of the Federal Open Markets Committee, which sets Fed interest rate policy, said consumer spending remained strong and labour markets are tight or tightening in most of the country's 12 Federal Reserve districts, though only in specific sectors.

The latest report was prepared by the Dallas Federal Reserve Bank and will be used at tha November 15 FOMC meeting, at which the Fed is widely expected to raise interest rates by at least half a percentage point.

The Fed said there was little rise in retail prices, but "pressure is building in some districts." The Commerce Department's index of leading economic indicators, however, was flat in September, despite a sharp rise in building activity that had been expected to drive the index higher. The department said yesterday the index was unchanged at 102.3 in September, after rising 0.5 in August, with weaker orders for consumer goods helping to offset the jump in building permits announced last month.

Separately, the Commerce Department said that new orders for manufactured goods decreased by 0.2 per cent in September. While orders for durable goods increased by 0.4 per cent. non-durable orders dropped by 0.8 per cent. their first decline for almost a year. Shipments of manufactured goods fell by 0.6 per cent in September. after rising 4.6 per cent in August: inventories dropped 0.2 per cent.

The index of leading economic indicators is compiled from eleven statistics and is intended to signal turning points in the economic cycle six to nine months before they occur. The Commerce Department said six of the eleven components pushed the index higher in September, while four pushed it lower, with one unchanged.

MIXED SUCCESS FOR SOTHEBY'S CONTEMPORARY ART SALE

Sotheby's sale of contemporary works of art in New York on Tuesday night well illustrate the current state of the world art market: buyers were willing to pay reasonable prices for the best paintings but there was no interest at all in the second rate, writes Antony Thorncroft.

The auction totalled \$12.145m (£7.48m) but 40 per cent of the 66 lots were unsold.

One of the icons of "Pop" art, Roy Lichtenstein's "I...I'm Sorry" (pictured above), showing a comic strip blonde shedding a tear, complete with balloon caption, sold, on estimate, for \$2.47m to the Californian collector Eli Broad.

"Pop" art has been the main casualty in the collapse of the contemporary market since 1990 and this was a reassuring price. There was an artist record in the \$805,500 paid for Ellsworth Kelly's "Green, Red, Yellow, Blue", four panels of those colours. Estimates and reserves had been kept low but judging by the results even more caution will be needed next time.

There were encouraging signs. "Let us now praise famous men," a silkscreen by Andy Warhol based on portraits of the artist Richard Rauschenberg and his family, was fought over by seven bidders and eventually went for \$1.058m, ahead of estimate, while a drawing by de Kooning, "Monumental Woman," which the artist gave to the late Harold Rosenberg, art critic of The New Yorker, on his birthday in 1954, also beat its forecast, making \$695,500.

Its provenance made it desirable, as did the eight paintings sold by the New York publisher S.I.Newhouse, seven of which found buyers.

However, the failure was the most important lot, "Untitled," by Cy Twombly, which was expected to make around \$1m.

IMF, World Bank begin talks in Haiti this week

By Canute James in Kingston

A team from the International Monetary Fund and the World Bank will begin a visit to Haiti at the end of this week for talks which will mark the start of international efforts to rebuild an economy enfeebled by decades of dictatorial rule and three years of economic sanctions.

Mr Jean-Bertrand Aristide, Haiti's president who was reinstated last month after three years in exile, has indicated he is willing to implement a range of sweeping reforms to breathe life into the economy.

Mr Smarck Michel, the prime minister nominated by Mr Aristide, is also reported to back the reforms. However, even among Mr Aristide's closest supporters, there is a view that the changes proposed are too radical and their unpopularity could disrupt the government's other work.

The true indication of Mr Aristide's commitment will be known by the month-end. The letter of intent to the IMF, which should be prepared within 10 days of the visit of the joint team, will contain the economic targets to lay the ground for wider reforms.

The mission will be led by the head of the InterAmerican Development Bank, Mr Enrique Iglesias, and include officials from the World Bank and the UN.

The framework for the economic programme, which will not be completed in the remaining 15 months of President Aristide's term, was agreed by a group of donor countries and Mr Aristide's government-in-exile this year.

It proposes extensive deregulation of the economy, the divestment of state enterprises to local and foreign investors and tariff reform. The bureaucracy is to be trimmed and institutions, such as the judiciary and police, rebuilt.

Of the \$770m needed for the programme over the next 15 months, World Bank officials said yesterday \$80m will be required to clear arrears to foreign creditors. This will open the door to further bilateral and multilateral financial assistance.

Political calm ahould also elicit an increase in two other sources of finance – funds for charities working in the country and remittances from Haitians overseas.

Many Haitian businessmen believe the programme offers the best chance for economic revival. They say assembly industries (garments, electrical appliances, baseballs – all for the US market) will theoretically be easy to restart if stability is maintained. But some US suppliers may be less enthusiastic to renew contracts for the assembled products because of concerns about longer-term political stability. Furthermore, the US reimposed quotas recently on Haitian clothing imports.

WORLD TRADE NEWS DIGEST

Lomé 'will not survive century'

The Lomé convention, the treaty under which the European Union grants trade and aid concessions to the former European colonies, will not survive the century in its current exclusive form, a senior EU official said yesterday.

Mr Peter Pooley, director-general of the development directorate, said in London: "I don't see Lomé lasting as an exclusive club beyond the end of the century." The EU this year began to negotiate the fifth Lomé accord with developing country governments, but he said: "If there is a Lomé V, it will be a more generalised one." There was no reason to exclude such countries as Bangladesh from the convention, he said.

A new accord would also seek to differentiate between countries of different development levels, and differentiate one region from another, he said. Lomé IV was agreed as the Berlin Wall was falling, but failed to take account of the consequences. *Stephen Fidler, Latin America Editor*

Union Carbide files appeal

US chemicals company Union Carbide has filed an appeal to the European Court of Justice over the European Commission'e epproval of a $3bn (£1.8bn) plastics joint venture between Royal Dutch/Shell group and Italy's Montedison. Union Carbide said in its present form the proposed venture threatened competition in polypropylene manufacturing.

The Commission gave its go-ahead to the deal in June in spite of the fact that Shell and Montedison have at least partial control of the two main polypropylene manufacturing methods. *Daniel Green, London*

Australia/NZ aviation talks

Mr Laurie Brereton, Australia's transport minister, yesterday said he would meet his New Zealand counterpart, Mr Maurice Williamson, next week to discuss an eviation dispute between the two countries. Mr Brereton also stressed that a memorandum of understanding, which would have allowed Air New Zealand to fly domestic Australian routes from November 1, had not been cancelled.

A row erupted last week when the Australian government announced unilaterally that it was "freezing" the memorandum for an unspecified period on the grounds that some of the conditions had not been fully complied with. This prompted speculation that the Australian government was trying to protect the flotation of its 75 per cent interest in Qantas, due next year. *Nikki Tait, Sydney*

Contracts and ventures

■ SNC-Lavalin, Canada's biggest engineering consultants, is to modernise and upgrade the Volvograd oil refinery for Lukoil, Russia's biggest integrated oil company. The project will cost $400m and is due for completion in late 1998. The refinery's capacity is about 200,000 barrels daily. SNC-Lavalin will provide engineering services, procurement, project management and start-up services using a Russian engineering firm as sub-contractor. *Robert Gibbens, Montreal*

■ Siemens has won a DM150m ($100m) contract for the expansion of a pumped-storage water power plant in Guangdong province, China. The plant will be one of the largest of its kind in the world, with a total output of 2,400MW. *Reuter, Munich*

■ Toshiba Corporation has announced an agreement to license advanced semiconductor-related technology to Chartered Semiconductor Manufacturing of Singapore. *Michiyo Nakamoto, Tokyo*

India seeks private capital for toll roads

By Stefan Wagstyl in New Delhi

India is turning to private investors in an attempt to give a huge boost to developing its primitive road network.

The government is issuing letters of intent worth $50m for the construction of three private sector-operated toll roads and one bridge – e first step towards attracting private capital into an industry long dominated by the state.

The four schemes are among about 30 projects totalling over $6bn, including $5.8bn worth of motorways, earmarked by the ministry for surface transport for possible private sector development. Companies would build roads and bridges, collect tolls to recoup their investment for a fixed period and then transfer ownership to the state.

The ministry's plans are an extension of the government's efforts to liberalise the economy and to expand India's infrastructure after years of underinvestment.

Officials say 42 companies have expressed interest in build-operate-transfer schemes, including Renong, Malaysia's largest business group, which has suggested investing up to $25bn building a 12,000 kilometre national motorway network. Other interest has come from US, European, and Asian companies. Mr Rajeev Talwar, a senior transport ministry official, said: "The amounts of money we need to invest are immense. But we bave had an overwhelming response from private industry."

The projects ioclude a letter of intent with Costain, the British construction group, to build a $15m bridge across the Narmeda river on the west coast of India along a trunk road linking Bombay with the fast-growing state of Gujarat. The other three schemes covered by the letters of intent are for by-passes at Nellore, in Andhra Pradesh, Coimbatore, in Tamil Nadu, and Hubli-Dharwad, in Karnataka. The Nellore project has been awarded to HSSI, of Malaysia, and an Indian partner, and the other two projects to SPIC, a diversified south Indian group.

Companies say negotiating contract terms could take some time since privately operated roads and bridges are a novelty. The biggest problem will be ensuring that rules governing toll-collection are free from future political interference. This may prove difficult in a country where many people have come to expect that public services, including transport, cost little or nothing. Simply ensuring that travellers do not ignore toll booths will be a challenge.

Also, even though Mr Jagdish Tytler, the transport minister, and his senior officials are enthusiastic about private investment, some officials are dragging their feet. Parliament last year authorised private investment in roads, but the ministry has yet to publish a new highways policy incorporating the change.

Meanwhile, the ministry is also trying to attract private investment in ports. Private companies are working on schemes worth $300m to install privately operated terminals, container bays, berths and storage areas. Projects worth a further $4bn are under consideration, including a $500m chemicals terminal in Bombay and a $600m harbour in Goa.

US in new open skies gambit

By George Graham in Washington

The US tranaportation department plans to sidestep the larger European countries in its quest to open up the skies for US airlines hy starting negotiations with nine smaller European nations.

Mr Federico Peña, the transportation secretary, said the US plans to build on the open skies treaty already signed with the Netherlands, and hopes to conclude agreements in the next few months.

US officials refused to say which countries would he involved in the negotietions, hut they are all smaller nations in western Europe, including some members of the European Union. France, Germany, Italy and the UK are not involved. Aviation experts said the list was likely to include Switzerland, Austria, Denmark, Sweden and Norway, and probably Iceland, Ireland, Belgium and Luxembourg.

The US is deadlocked in eviation negotiations with the UK and France, and the new policy appeara to ahandon the ettempt, urged by some big US airlines, to seek a global open skies agreement.

In May, Mr Peña said that the current system of hilateral treaties which regulate international air transport was "designed to limit, not to foster, competition, and inhibits or distorts globalisation".

But in e draft policy statement issued for comment this week, the department said it would concentrate on open skies agreements with "a group of countries that share our liberalisation vision and offer important flow traffic potential for our carriers," while renewing efforts to achieve more liberal agreements with larger partners such as Canada and the UK.

Mr Jeffrey Shane, a lawyer with Wilmer, Cutler & Pickering in Washington and former head of aviation policy in the Bush administration, said the Clinton edministration had found "some way of advancing the ball", as there appeared to be no one ready to sit on the other side of the table for multilateral talks.

"Notwithstanding the fact that we are talking ehout smaller countries, which will not on the surface provide great eccess opportunities for US carriers, hy talking ahout a cluster of nine of them it will certainly shake things up," Mr Shane said.

The Netherlands agreement has already brought divideods by paving the way for epproval of a co-operation agreement between KLM, the Dutch airline, and Northwest Airlines. Government approval of a similar arrangement between British Airways and USAir was much more conditional.

Market to get one's teeth into

Taiwan's Gatt quest puts betel-nuts on agenda, writes Laura Tyson

Taiwan's quest to become a signatory to the General Agreement on Tariffs and Trade has invited demands hy its trading partners that it first open its relatively closed economy to more cars, beef, fruit, fish and, of course, rice. No one has yet mentioned betel-nuts.

Yet Taiwan's market for this mild stimulant, chewed in many countries throughout east and south-east Asia, is believed to be worth more than that for rice. And as with rice, imports are banned.

Indeed, the Talwanese appetite for betel-nut has led to environmental, health and even criminal problems in small, crowded Taiwan es farmers across much of the island have converted paddy fields into hetel-palm groves. Of 21m Taiwanese, some 2.5m chew the nut, whose total street value is estimated at US$2bn (£1.2bn) a year.

"It's much more profitable than rice, and cheap and easy to grow – no hard work, no fertiliser," says Mr Antonio Chiang, publisher of The Journalist, Taiwan's leading weekly political magazine.

It was Mr Chiang who coined the now widely used appellation "Talwanese chewing gum" for the much-maligned betel-nut, called *binglang* in Chinese, some 10 years ago. His family grows betel-nut in their paddy fields near Taichung in central Taiwan.

"If you drive a truck, you must chew *binglang*... the only alternative is amphetamines," says Mr Chiang. "But *binglang* is much hetter, hecause amphetamines are stronger and addictive."

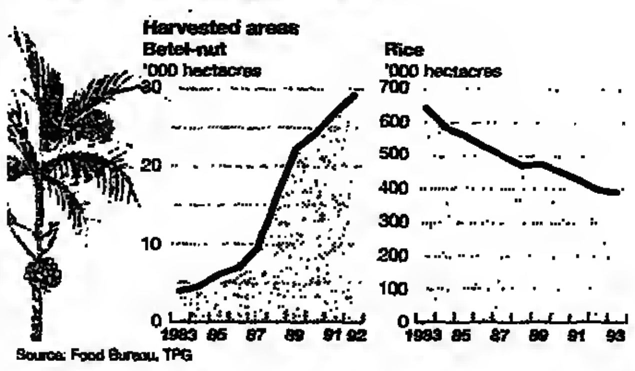
The market for betel-nut has grown in the last decade and now rivals rice, which has declined in importance, as Taiwan's biggest cash crop. In 1993, the total value of betel-nut production sold by farmers was T$10.3hn ($386m), compared with T$40.5bn for rice, according to official figures. But officials concede that those figures may be misleading, not only because it is difficult to monitor betel plantings.

"If you take the farm price, then rice is a bigger market. But the street value of betel-nuts is much higher than rice because of the buge mark-up," says Mr Tai Teh-fang, a researcher in the economics and planning department of the agriculture ministry.

Betel-nut chewing bas become increasingly popular in recent years, in part due to rising income hut also because it is seen as an emblem of ethnic Taiwanese consciousness. Chinese who came to the island from mainland China in 1949 as a rule do not chew.

Mr Wu Hui-lung, chief of the soil conservation division in Taiwan's agriculture ministry, says: "Because the price of betel-nut is getting higher and higher, farmers are now illegally cutting down forest to grow betel-palms. On the flat land there is no problem, but in the mountain areas it is causing severe erosion and problems for water conservation."

Taiwan: betel-nuts gain ground



Source: Food Bureau, TPG

Officials say farmers could earn at least US$25,000 a hectare each year from betel-palm plantings, far more than US$2,000 a hectare for rice. "Those betel-nut farmers are very rich," says Mr Tai from the agriculture ministry. "Some of them even drive Mercedes-Benzes."

The country's health authorities are concerned about the medical effects of betel chewing which include a high incidence of oral cancer. The government is also worried about gangster control of the wholesale industry, smuggling and road-side betel-nut stands that bave proliferated across the island.

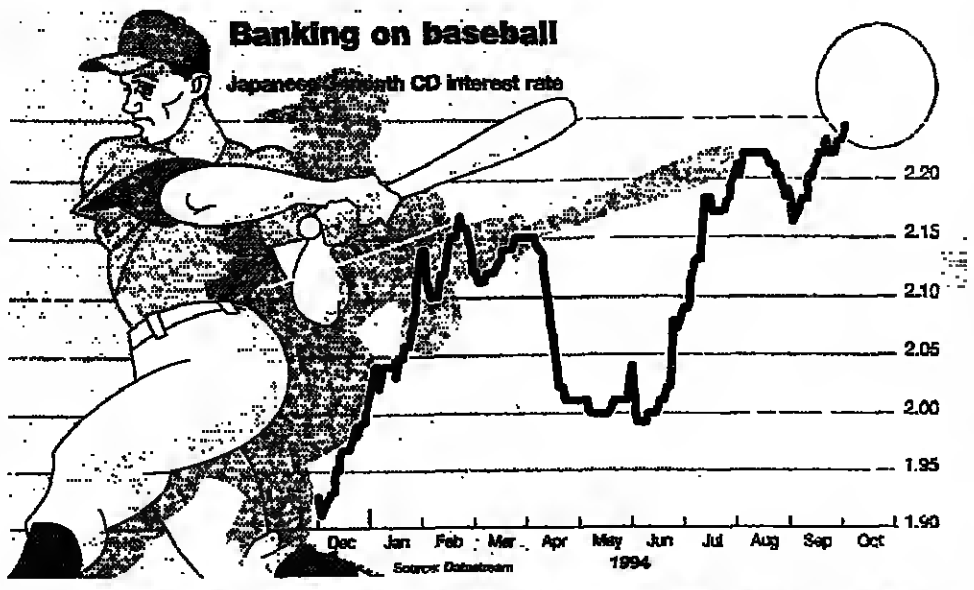
Mr Wu says the ministry is studying the possibility of legalising betel-nut imports to reduce the economic benefit to farmers in the hopes of stemming cultivation, but no decision has yet been made. Such imports have been banned hy the ruling Nationalist government for more tban four decades but in recent years smuggling from Thailand, the Philippines and Chine has become rampant.

Mr Lan Min-chuan, a trade specialist in the agriculture ministry's economics and planning department, says that in any case Taiwan would be obliged to opeo its market to imports of all agricultural products once the island signs up to Gatt.

"The market will not be opened all at once to imports, but when it is we will definitely impose an import duty," he says.

Banks hit by interest rate curve ball

Gerard Baker on the latest chapter in their long struggle to survive



When Ichiro Suzuki of the Orix Blue Wave baseball team slugged his way into the record books this summer, becoming the first player in Japanese history to make 210 hits in a season, he was not just propelling his club to one of its best seasons ever. He was also setting interest rates for thousands of customers of the leading local bank in the port city of Kobe.

As the season ended Hyogo Bank came up with a novel scheme that neatly exploited the country's two modern obsessions – baseball and saving. It offered customers an interest rate on five-year deposits of one-tenth of the prolific hitter's batting percentage for the season.

Ichiro, as everyone knows him, achieved a club high batting average of 38.5 per cent, meaning he scored a hit on more than one in three attempts. So the bank offered customers a rate of 3.85 per cent for a minimum investment of Y100,000 (£630).

The rate was just a little above prevailing market rates of around 3.7 per cent, and Hyogo's managers acknowledge that it was probably the enticement of an autographed baseball as much as an extra few thousand yen a year that brought the crowds queueing outside Hyogo's branches when the offer opened.

But the real significance of the "Ichiro Time Savings" account was that it opened a new chapter in the continuing saga of Japanese banks' struggle for survival.

The bank was able to offer the special interest rate thanks to the final stage of the liberalisation of Japanese interest rates last month. The finance ministry removed the last controls on banks' deposits by permitting them to open five-year deposit accounts, and to set their own interest rates on all hitherto regulated time and demand accounts.

The effect was predictable. Hyogo's innovation was the most novel of the banks' responses to the arrival of a new era of market economics, but the effect was the same everywhere – a small rise in savings rates.

But while the reform was good news for customers, it spelt further problems for the banks themselves since it could hardly have come at a worse time. The removal of the last regulations now makes them more sensitive to interest rates at precisely the moment when the cost of borrowing is starting to rise.

For the last four years interest rates have been falling as Japan has grappled with its worst recession since the second world war, but as the economy starts to recover a period of rising interest rates will weaken banks' profitability.

According to Mr Nozomu Kunishige, banking analyst at Kleinwort Benson in Tokyo: "Deregulation of deposit rates means banks' funding costs are set to rise sharply, while their revenues are likely to remain sluggish." Deposit rates tend to rise more quickly than lending rates, leading to thinner margins.

Since the end of 1993, banks' short-term prime lending rate has remained unchanged at 3 per cent, while deposit rates have risen. The three-month certificate of deposit rate has risen from around 2.0 to 2.3 per cent in the same period, cutting margins by 30 per cent. Worse still, the enormous hangover of bad debts from the collapse of the "bubble economy", a period in the late 1980s of rapidly rising property and other asset prices, mean banks face limited demand for lending. That makes it difficult for them to raise their lending rate. Indeed in the last few months, some banks have been offering loans to blue-chip customers at rates well below prime lending rate.

The position is even more precarious for the smaller regional banks such as Hyogo. They draw a far higher proportion of their funds from individual customers, where liberalisation is forcing rates even higher. Interest income accounts for more than 80 per cent of gross business profits at such banks. They are already heavily laden with bad debts which require substantial provisions from profits. In the past they were at least offered some protection by a very low cost of funds, as deposit interest rates were fixed at low levels. Now that advantage has disappeared.

The likeliest implication, according to most analysts, is the further fracturing of the oligopoly that has characterised Japanese banking. In the past, banks have been notoriously hidebound by a desire to stay close to the pack. This natural inclination was reinforced by the strict control of the finance ministry. In the absence of competition in interest rates, differentiation was achieved by minor distinctions in marketing approaches.

According to David Threadgold, banking analyst at Barclays de Zoete Wedd in Tokyo, "there is no doubt that banks' strategies are now diverging, and the deregulation of the last few years means pricing is a key part of that".

The strongest banks are likely to exploit their muscle; for the first time the gap between the strongest and the weakest will take on meaningful proportions. Though few dare say it now, that could even mean that the Japanese banking sector may come to experience what baseball has had all along – winners and losers.

Palestinian aid scheme lags by six months

By Julian Ozanne in Casablanca

The World Bank said publicly for the first time yesterday that the international aid programme to Palestinians was more than six months behind schedule, amid growing concerns about the potentially explosive impact of economic stagnation on the peace process.

Mr Caio Koch-Weser, the body's Middle East and North Africa vice-president, said that by the end of the year donors will have disbursed only about $220m (£137m) to the Palestinians out of a total $700m committed for the year.

The Palestine Liberation Organisation has complained about the bottlenecks and bureaucracy in the donor aid mechanism and warned that failure urgently to raise living conditions in Gaza is eroding Palestinian support for peace with Israel and fuelling an Islamic opposition.

Mr Koch-Weser conceded that, with hindsight, donors could have found faster ways of disbursing money.

But he said: "Success is not about disbursing money fast but doing so in a way to have a visible and rapid improvement in the economic and social conditions...so that mother and child in the refugee camps can see the change on the ground."

Donors had over-estimated the Palestinian ability to build economic management institutions and clearly define and streamline decision-making processes. It had been hard to get adequate donor co-ordination and avoid overburdening embryonic Palestinian institutions with second-priority projects.

Delays in aid disbursement reflected delays in political talks between Israel and the PLO, also more than six months behind schedule. Donors had assumed the still Israeli-occupied West Bank would have been transferred to the Palestinians by last July, a move now unlikely before early next year.

The transfer of the West Bank is vital to Palestinian economic viability and public finances owing to its considerable revenue potential.

The revenue base of the impoverished 900,000 residents of Gaza-Jericho is insufficient to sustain creation of a central Palestinian authority and bureaucracy and pay running costs, and the salaries for 10,800 policemen and 12,000 civil servants. The PLO estimates it can collect a maximum $5m a month locally and a further $6m Customs duties and income taxes levied by Israel but transferred to the Palestinians through a clearance mechanism.

Control over the West Bank would add at least a further $20m a month in clearance from Israel, and considerably reduce the need for donor financing of recurrent costs of the Palestinian authority.

But Mr Koch-Weser said donors were determined not to let political delays continue to obstruct the aid effort. "In future one must make sure the ups and downs of the peace negotiations don't have a major impact on the momentum of the economic reconstruction and rehabilitation efforts."

There has been vociferous condemnation of Israel's unilateral closure of its borders with Gaza and the West Bank two weeks ago which put 65,000 Palestinian migrant labourers out of work.

Donors said the closure, and Israeli prime minister Yitzhak Rabin's description of Gaza as a terrorist territory have sent worrying signals to the aid community and potential investors.

Donors said in Casablanca there was an urgent need to revise the aid programme and focus efforts on high-impact job creating schemes such as public works to tackle huge unemployment and poverty.

Hamas moderates and Israel edge towards talks

By Eric Silver in Jerusalem

Just two weeks after a Hamas suicide bomber killed 22 bus passengers in the heart of Tel Aviv, Israel and his Islamic Resistance Movement are edging towards a dialogue.

Two West Bank Hamas leaders yesterday came out in favour of talking to the "Zionist enemy". Sheikh Jamil Hamami said in East Jerusalem: "Dialogue is not forbidden. There must be a dialogue to stop the bloodshed on both sides." In Ramallah, Hussein Abu Kweik, said: "We would like to see such a dialogue as soon as possible under Arab, international or Palestinian sponsorship." Mr Abu Kweik was one of 400 Islamic activists Israel deported to Lebanon two years ago.

Both insisted, however, that Israel must first stop arresting Hamas members and must release those currently in prison, including Sheikh Ahmed Yassin, the organisation's founder, who has been behind bars since 1989.

They were responding to signals by Israeli ministers that they were ready to talk to "moderate" Hamas leaders. Mr Moshe Shahal, police minister, told Labour MPs on Monday: "All Arabs would prefer the state of Israel not to exist. Some of them will not come to terms. But even in Hamas there are differences. Israel is making a mistake when it is not ready to talk to people."

Mr Yossi Beilin, deputy foreign minister, said on Tuesday: "I don't know what we are going to speak about if there is such a contact. But all those who tried to boycott their enemies eventually had to back off. It happened to us with the PLO, it happened to the British with the IRA. Just boycotting the other side because of its past, or its official view, is wrong. It doesn't mean that we have to negotiate with Hamas about the destruction of Israel. Then we won't talk to them. But if there are some moderate forces in Hamas which believe that terrorism will not solve their problems and are ready to talk to us, I do not believe that we should exclude the possibility of contact with them."

Mr Beilin, one of the initiators of the secret dialogue with the PLO that led to the 1993 Oslo agreement, took a similarly flexible stand on possible Hamas participation in elections to the Palestinian National Authority.

"Movements or parties which see the destruction of Israel as part of their platform should not participate," he said. But he saw no reason to oppose participation by Islamic groups which wanted to challenge the PLO leadership, so long as they accepted the legitimacy of whoever was elected.

A Palestinian woman closes her bag after a search by a woman Israeli soldier on the Gaza-Israel border yesterday Reuter

Hundreds die in Egypt fuel blaze

More than 410 people were killed in southern Egypt yesterday, most of them when blazing fuel flooded into a village from a depot struck by lightning, officials in the town of Assiut said, Reuter reports from Assiut.

A health official said hospitals had received 229 corpses from the stricken village of Dronka; a security official said another 122 corpses were still lying on the ground there. Flooding killed 63 others, the official said.

Lightning struck the complex of eight fuel tanks holding 15,000 tonnes of aircraft and motor fuel after a thunderstorm had raged for at least five hours, an Assiut official said.

The complex was still on fire at 6 pm local time. A new blaze had started in another storage tank. Firefighters decided to let the fire burn itself out.

The governor of Assiut Province declared a state of emergency, sending in rescue units and army firefighters to try to control the flames.

The missing included at least 10 men trapped in a mosque during prayers and a maintenance crew working inside the storage complex. The fuel tanks are operated by a subsidiary of the state-run Egyptian General Petroleum Corporation (EGPC).

EGPC officials in Cairo declined to comment on the incident. One said a team of experts was travelling to Assiut to assess the damage to the tanks, used as a strategic fuel reserve for the defence ministry. Meteorologists in Cairo said the storm was one of the worst in Egypt's history.

Burma's junta defiant as US presses for reform

By Victor Mallet in Bangkok

The most senior US delegation to visit Burma in six years left Rangoon yesterday without apparently receiving any assurance from the country's military rulers that they intend to embark on significant political reforms.

Mr Thomas Hubbard, US deputy assistant secretary of state for east Asian and Pacific affairs, said in Bangkok after the two-day visit that moves by the junta towards political reconciliation would improve US-Burmese relations, but failure to make progress "would lead to further restrictions on our political and economic ties".

Mr Hubbard, accompanied by US officials from the National Security Council and agencies concerned with human rights and drug trafficking, had three hours of talks with Lt Gen Khin Nyunt, head of military intelligence. The US visit follows two meetings between Gen Khin Nyunt and Ms Aung San Suu Kyi, the democracy campaigner held under house arrest in Rangoon for more than five years.

Few details of those meetings have emerged, and Mr Hubbard said Gen Khin Nyunt did not divulge any details; nor has the junta let the US delegation meet her or other political prisoners. Burma's armed forces have been in power since 1962. They crushed a popular uprising in 1988, and ignored the results of an election in 1990 which Ms Suu Kyi's National League for Democracy won overwhelmingly.

The US has pursued a policy of isolating the junta, downgrading its diplomatic ties and preventing the disbursement of aid funds from multilateral bodies such as the World Bank.

"We would like to see a genuine national reconciliation," said Mr Hubbard. "We hope it won't be necessary to downgrade our relationship further." The US officials were subjected to a long lecture by Gen Khin Nyunt about Burmese history since the time of British colonial rule, and they in turn lectured the general about the need for moves towards democracy.

It emerged from the meeting that the International Committee of the Red Cross would soon be allowed "a role with regard to political prisoners", that Gen Khin Nyunt had promised to continue talks with Ms Suu Kyi, and that the junta had authorised a survey of Burma's opium crop, which accounts for much of the world's heroin supply.

INTERNATIONAL NEWS DIGEST

India sees spurt in investments

India saw a sharp spurt in foreign investment inflows in the first months of 1994-95, according to a finance ministry report published yesterday. The ministry estimated the total inflow in the five months to August reached $2.1bn (£1.4bn), compared with $4.1bn in the whole of 1993-94. Direct investment rose to $381m in the five months to August, against $620m for the 1993-94 year. Ministry officials said total foreign investment in 1994-95 might, on present reckoning, surpass last year's levels. The figures do not yet include any significant contributions from planned large-scale projects in power generation and oil refining which could start producing investment inflows in the next 12 months. "The surge in foreign investment in recent times is one of the direct manifestations of the success of the economic reforms," the ministry said in a mid-year review of the economy.

The report paints a positive picture of the economic outlook, saying economic growth in 1994-95 is likely to exceed 5 per cent, "much higher" than last year's 3.8 per cent. Agricultural output is good, industrial production is recovering, inflation is being controlled and exports continue to grow, although more slowly than last year. *Stefan Wagstyl, New Delhi*

Vietnamese inflation soars

Vietnam has failed in its push to keep price increases in single figures for 1994, the government's statistics department said in its weekly review, when reporting 11.3 per cent inflation in the first 10 months. A big increase in food costs, apparently because of higher prices for rice caused by floods in the Mekong Delta and market fluctuations, fuelled a 1.3 per cent rise in the retail price index in October. The National Assembly again set single-digit inflation as the target when it fixed economic goals for 1995 at its last meeting of a 12-day session on Tuesday. *Reuter, Hanoi*

Sihanouk warns off tourists

King Norodom Sihanouk, Cambodia's head of state (left), warned tourists yesterday to avoid his country as the bodies of three western hostages killed by Khmer Rouge rebels were recovered, bound and shot, from graves found near a southern rebel base. Saying Cambodia is "clearly insecure", he joined foreign embassies in advising tourists to avoid Cambodia. "I condemn with the greatest severity the contemptible and unpardonable murderers who are responsible for the deaths of these three young gentlemen," the king said in a statement. Mr Serey Kosal, deputy governor of Battambang province, said meanwhile that the Khmer Rouge kidnapped 71 local villagers and then executed 50 of them after a four-day forced march to a guerrilla base. *Reuter and AP, Phnom Penh*

Chinese move against Jardine

China yesterday demanded that the Hong Kong government provide it with details on the award of a HK$790m ($63m) contract to build a base for the Chinese navy in Hong Kong harbour. The contract was won by Gammon Construction, owned jointly by Jardine Pacific, a subsidiary of the Jardine Matheson trading house, and Trafalgar House, an associate of the group. China is furious with Jardine, which is to delist from the Hong Kong stock exchange at the year's end. In retaliation Beijing has withheld its approval for the extension of Hong Kong's container port, in which Jardine has a large interest. In a statement the Chinese foreign ministry said: "As the project is related to the defence of Hong Kong's Special Administrative Region beyond 1997, we demand that the British side provide us with relevant information on the project's bidding." A senior Hong Kong government official said last night that Gammon had won the contract against six other bidders in an open tender. *Simon Holberton, Hong Kong*

Standard Chartered fined

Standard Chartered Securities, the stockbroking arm of Standard Chartered Bank, has been fined HK$500,000 by the Hong Kong stock exchange and publicly censured for its stock manipulation and "rat-trading" activities – whereby trades for customers are booked through an employee's private accounts with other stockbrokers to the detriment of the client and advantage of the broker. The exchange's disciplinary committee found Standard Chartered Securities failed to exercise proper supervision of its employees between July 1991 and March 1993, which led to the company breaking several rules. *Louise Lucas, Hong Kong*

Jakarta 'clean-up' criticised

Indonesian authorities are cracking down on government critics, labour activists and alleged criminals to "clean up" the capital Jakarta before next week's Asia Pacific Economic Co-operation summit, according to Amnesty International, the London based human rights organisation. It said yesterday the crackdown began with an anti-crime campaign in April but had been broadened to include "arbitrary arrest of political detainees, some of whom had been tortured and illtreated, the unfair trial and arbitrary imprisonment of labour activists and the dramatic escalation in the number of unlawful killings of alleged criminals."

In Washington, Mr Mickey Kantor, the US trade representative, said America would raise American concerns over Indonesia's rights record at the summit. *Our Foreign Staff, London*

Unlikely champion, Page 15

■ South Korea's industrial output in September rose 8.0 per cent on the year, down from a 10.4 per cent rise posted a year earlier and an 11.7 per cent increase in August, provisional National Statistical Office figures showed. *Reuter, Seoul*

Beijing push to mediate in Korea

By John Burton in Seoul

China's premier Li Peng, the most senior Chinese official to visit South Korea since the two countries normalised ties in 1992, is promoting China's role as diplomatic referee between North and South Korea.

He is also trying to boost Chinese exports to South Korea, which enjoys a heavy trade surplus with Beijing, while resisting Seoul's demands for fewer trade and investment barriers.

Mr Li agreed to a South Korean request that China, North Korea's closest and most influential ally, should help in ensuring Pyongyang abides by its recent agreement with the US to dismantle its nuclear programme. China has endorsed the US-North Korean accord as a vindication of its recent policy to promote dialogue between Washington and Pyongyang to solve the nuclear dispute.

But the message brought by Mr Li to Seoul is that both Koreas need to make new concessions to increase stability on the peninsula.

China expressed support for North Korean proposals to replace the armistice that ended the 1950-53 war with a peace treaty with the US. Beijing last week withdrew its representatives from the truce supervisory commission, to promote this policy. But Seoul is cautious about a treaty, since it could lead to US troops quitting South Korea.

It worries that North Korea might try to use the treaty to isolate South Korea from its US ally, since Pyongyang insists Seoul cannot be a party to the pact because it refused to sign the armistice in 1953. But China is backing South Korea's call for renewed talks with North Korea, a proposal Pyongyang has proved reluctant to accept.

China wants to stabilise the Korean peninsula, but analysts believe Beijing's long-term goal is to maintain two separate Koreas rather than see a united, Korea on its doorstep. "There is nothing to rule out that China may try to keep North Korea as a buffer state," Mr Stephen Linton of the Korea Studies Centre at Columbia University, says.

Potential disputes could also affect the growth of close economic ties between China and South Korea. South Korea views China as a potentially huge market for its products and a cheap production base, but fears China's growing competitiveness abroad. China already sells more TV sets to the US than Korea.

China views South Korea as a prime source of vital technology, but has imposed trade barriers on some Korean products and restricted investments because of the threat they pose to the development of key industries. Several Korean car companies, including Hyundai and Daewoo, want to set up plants in China, but Beijing has so far refused their requests.

It is demanding Korean carmakers first set up car components factories, which would benefit the Chinese motor industry, as the price for acquiring manufacturing facilities. Moreover, Korean factories operating in China are mostly producing goods for export rather than the domestic market, because of marketing curbs.

To try to persuade the Chinese to favour Korean investors, the chairmen of the country's four biggest conglomerates, Samsung, Hyundai, Lucky-Goldstar and Daewoo, are guiding Mr Li through their production facilities this week.

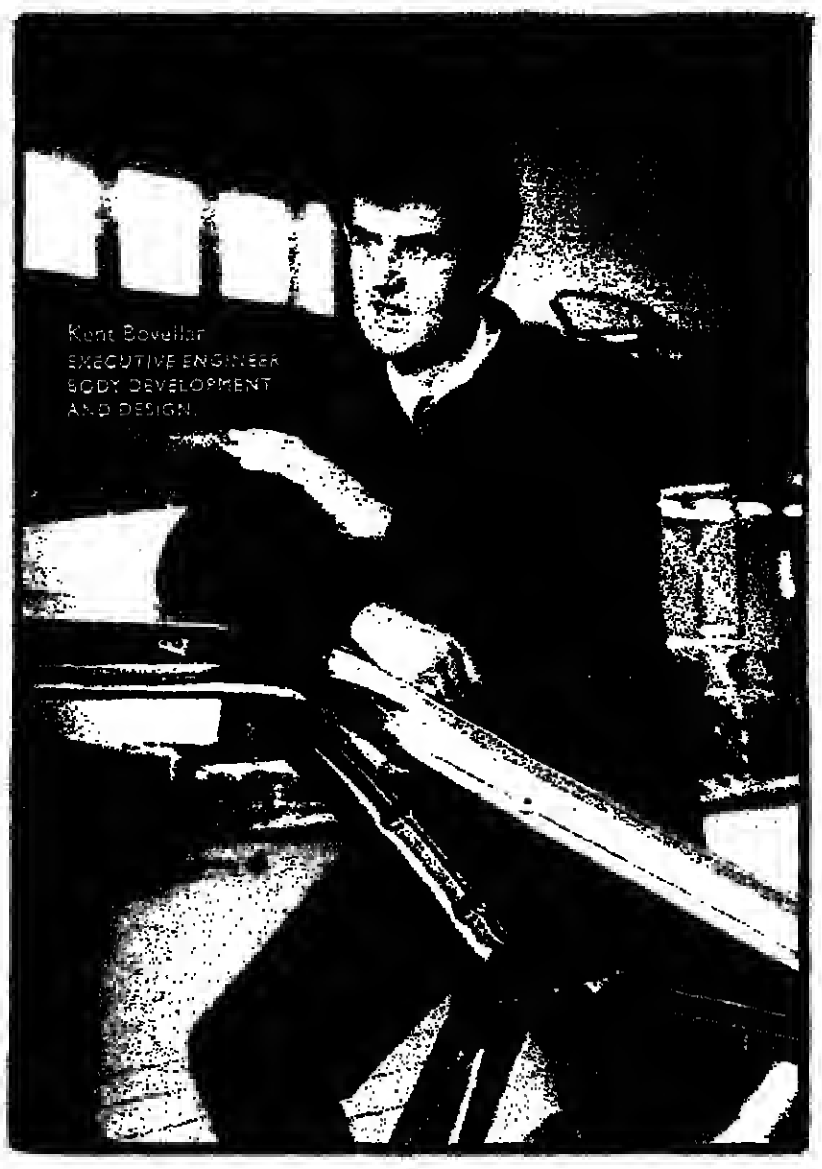
The two countries have agreed to co-operate on several industrial projects, including aerospace, cars, high-definition television and automatic telephone switching systems. This week, they signed a memorandum of understanding on co-operation in nuclear power generation. South Korea hopes that in return for providing technology, it will gain extensive market access in China.

Samsung Electronics yesterday said it plans to invest $3bn over 20 years to build a manufacturing complex in Tianjin; Kumho, South Korea's biggest tyre-maker, has agreed with Nanjing Tyre Factory a joint venture to produce tyres in Jiangsu Province.

One indication the partnership may not be smooth came yesterday when the scheduled signing of a joint-venture pact on a new commercial aircraft project was postponed, owing to disagreements over the location of the aircraft factory planned by Samsung Aerospace and Aviation Industries of China. The two governments approved the joint venture on Monday.

هكذا من الأصل

We've always rejected the idea of a luxury limousine. A traditional one that is.

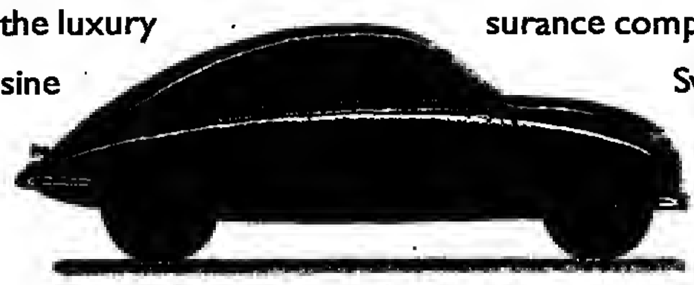


The words "luxury limousine" conjure up visions of long black cars with tinted glass, oceanliner suspension and zero excitement.

Which is why we've taken our time developing the new Saab 9000 CD. It's a luxury limousine alright. But it's a different kind of luxury. And a different kind of limousine.

AIRCRAFT HERITAGE.

With the Saab 9000 CD, we've stayed firmly away from the kind of luxury that puts you to sleep. Instead, we've drawn upon our aircraft heritage and built in features that keep you alert, fight fatigue, help you drive more efficiently. The result is a car that combines the luxury of a premium quality limousine with the sports tradition that is so very Saab.



THE FIRST SAAB, 1947.

BIGGER ON THE INSIDE.

First, the 9000 CD has the space you need to relax. It's a large car, with plenty of room for five large people. But it's one of those cars that's bigger inside than outside. The extra space is functional. Not obvious.

UNDERSTATED LUXURY.

However, you'll be relieved to know that we didn't spend all our time on totally practical matters. Life at Saab, thank goodness, is more than a ruthless quest for the efficient. So the 9000 CD gives you the choice of natural glove leather upholstery. Real wood trim. Suspension that cuts out the shocks without cutting you off the road. Reading lights in useful places. A highly sophisticated alarm system. An audio system custom designed for the 9000 CD's particular acoustics.

THE SAFEST CAR IN SWEDEN.

The Saab 9000 CD is also a very safe car. Insurance companies say it's the safest car in Sweden. This is the result of our "real-life" safety policy. We don't rely merely on laboratory tests carried out with photogenic dummies. We find out what happens to real people on real roads.

A NEW KIND OF V6.

But perhaps the most interesting feature of our 9000 CD is the engine. It's a 3.0 litre V6 engine – the first big V6 to win Saab's whole hearted approval. It's compact, fuel efficient, environmentally friendly. You get the effortlessly smooth power surge of a thoroughbred V6 – without the spongy, middle-aged feel that so often accompanies the big engines.

FOR PERSONAL REASONS.

With the Saab 9000 CD, you have a spacious, luxurious car that retains the taut handling and roadgripping qualities you expect from Saab.

We know all Saab drivers have their personal reasons for their choice. Perhaps this new kind of luxury will turn out to be yours.

SAAB

FOR FURTHER INFORMATION, A TEST DRIVE OR DETAILS OF OUR INTERNATIONAL/DIPLOMAT SALES PROGRAMME CALL SAAB INFORMATION SERVICE ON +44-71 240 3033 OR FAX TO +44-71 240 6033.

Irish PM applauds Clinton backing for 50% aid boost

By John Murray Brown in Dublin and Stewart Dalby in London

The peace process in Ireland has been given another boost with the US administration announcing a package of measures to help the economy of Northern Ireland and neighbouring counties in the Republic of Ireland.

Under the deal, Washington's annual contribution to the International Fund for Ireland is to increase subject to congressional approval from $20m in 1995-96 to $30m for each of the following two years. The increases will take the total commitment of the Clinton administration to the fund to $100m.

Mr Albert Reynolds, the prime minister of the Irish Republic, said: "I am delighted that Northern Ireland is still at the top of the agenda of the American president. The new package will certainly be welcomed in the places that have been devastated by the violence over the past 25 years. The best thing anybody can do for Northern Ireland is to put jobs back into both communities, where many have not known what normal living is all about."

Mr John Hume, leader of the Social Democratic and Labour party, said: "This is a very welcome announcement by Mr Clinton and confirms the undertakings which he previously gave to help build on the peace. I deeply appreciate the involvement which the president has shown and I am very aware of his willingness to assist us economically."

In addition Mr Clinton has said he will host an international trade and investment conference on Ireland next April in Philadelphia.

It was also announced that Mr Ron Brown, US commerce secretary, will be in Belfast for the investment conference organised by the UK government in December. Mr Brown will go on to Dublin for consultations.

Forty US companies are already operating in Northern Ireland providing 9,000 jobs. The International Fund for Ireland, set up in 1986 by the US and European Union, last year stood at £225m. The body provides venture capital for small and medium sized businesses in the province's most depressed areas. Last year it helped create more than 2,600 jobs.

There was a more guarded welcome for the new package from the Ulster Unionist party, the largest of the unionist parties in terms of seats in the UK House of Commons.

Mr James Wilson, the party's general secretary, said: "Financial aid is always welcome provided it is fairly distributed in the province and provided it is directed to areas of real need and in support of real jobs." He added: "What we do not want is money thrown around at the so-called peace process."

● The republic's National Forum for Peace and Reconciliation established following the IRA ceasefire will meet in Dublin today for the second time.

Police to join probe into fake fax

By Kevin Brown, Political Correspondent

Use of a fake fax by The Guardian newspaper to investigate Mr Jonathan Aitken's stay at the Paris Ritz was yesterday referred to the police and the privileges committee of the House of Commons.

Amid fresh allegations about the business activities of Mr Aitken, a junior Treasury minister, Downing Street confirmed that Mr John Major, the prime minister, knew about the fake fax nearly six months ago, but took no action.

After a rancorous debate marked by Conservative allegations of theft and fraud against Mr Peter Preston, The Guardian's editor, MPs voted for a privileges committee inquiry by 313 to 38, a majority of 275.

Mr Preston, who has admitted using the Commons logo on a letter to the Ritz seeking details of Mr Aitken's bill, will be called before the committee in the next parliamentary session.

He said The Guardian had sent the fake fax to acquire a documentary basis for questions about Mr Aitken's behaviour.

"We could not sit on it because something unpleasant might be done to us," he said on Channel 4 TV news.

Mr David Wilshire, the Conservative MP whose complaint prompted the debate, said he had also asked the police to investigate Mr Preston's "criminal" use of the logo.

Downing Street confirmed claims by Mr Mohamed Fayed, owner of the Ritz, that Mr Major and Sir Robin Butler, cabinet secretary, were aware of the faked fax in May, but took no action.

Mr Aitken denied allegations in the Daily Mirror that he was involved in undeclared deals which gave control of the TV-am television station to Saudi investors.

Insurers disappoint regulator

By Alison Smith

About one in six life insurance companies showed serious weaknesses and flaws in the second round of routine inspection visits by financial watchdogs, the annual report on the sector's regulation says today.

The report describes the result as a "disappointment", though it notes that the position has improved since the first inspection visits when a third of life insurers failed regulators' scrutiny.

Record fines of £300,000 were imposed earlier this year on Norwich Union and on Premium Life, and the life industry has been warned for several months that continuing failures would be severely penalised.

The report from Lautro, which has now been succeeded as life insurance regulator by the Personal Investment Authority, shows admits that plans for inspection visits were disrupted considerably for nine weeks in the spring by the setting up of the PIA.

Lautro says there have been some signs of improvement in standards, citing the shift in the causes of disciplinary action away from harm inflicted on investors towards the risk of harm, and the fact that the number of investigations was only about half that of the previous 12 months. The number of complaints has risen, however.

Mrs Jennifer d'Aho, who resigned yesterday as an outside director of the Northern Ireland Industrial Development Board in protest at the deal on a textiles plant with Hualon of Taiwan. "One of the key reasons I am resigning is that I still don't know who the IDB is doing this deal with," she said. "I resigned because I cannot get to the bottom of this thing. This is a very big project, and in my opinion there are too many unanswered questions."

Tories condemn privatisation of Post Office

By David Owen and James Blitz at Westminster

The government was last night on the brink of shelving plans to privatise the Post Office in a move that would deal a bitter blow to Mr Michael Heseltine, the trade and industry secretary.

A final decision on whether to include a Post Office bill in next year's legislative timetable was scheduled for today's meeting of the cabinet. Ministers are expected to conclude that privatisation would be too risky.

The likely retreat follows a meeting at Westminster yesterday at which a group of some 15 Tory backbenchers – more than enough to cancel out the government's Commons majority of 14 – told Mr Heseltine they would be unable to support any sell-off proposals.

Some rebels are understood to have told him that they would regard even the sale of a minority stake as unacceptable. Sir Keith Speed, a Conservative MP who attended the meeting, said afterwards: "There is still plenty of blue water between us."

Downing Street said last night that Mr Heseltine and Mr David Hunt, a senior minister with the title of chancellor of the duchy of Lancaster, would report back to their cabinet colleagues today.

Mr Heseltine told MPs earlier this week that, unless privatisation plans were included in the legislative programme of the next parliament, the project would have to be dropped until after the next general election. Yesterday's developments came after Mr Heseltine tabled a complicated plan for partial privatisation in a last-ditch attempt to rescue the proposed sale.

This would have involved a 40 per cent sale of the Royal Mail, the Post Office's letters division, and the transfer of another 30 per cent to an independent trust. The remaining 40 per cent would have remained in the public sector for a minimum of two parliaments.

Mr Heseltine's move was being portrayed last night in some circles as a tactical error. One Tory backbencher said it had given MPs the impression Mr Heseltine was trying to privatise the Post Office by the back door.

A retreat would also deal a blow to Mr Kenneth Clarke, the senior Treasury minister, who has been every bit as vigorous as Mr Heseltine in promoting privatisation.

MPs who attended yesterday's 45-minute meeting, at which a government whip is also understood to have been present, afterwards expressed confidence that Mr Heseltine would have to abandon his plans.

Editorial Comment, Page 15

Early rise in base rates ruled out

By Peter Norman, Economics Editor

UK bank base rates appeared last night to be on hold for this month after yesterday's monetary meeting between Mr Kenneth Clarke, the senior Treasury minister, and Mr Eddie George, governor of the Bank of England.

But higher interest rates in the months ahead remained a possibility after both men, in public comments before and after their 45-minute discussion, stressed their commitment to low inflation as the best way to promote UK economic growth and competitiveness.

Mr Clarke made clear in a BBC radio interview yesterday that he and Mr George were at one in wanting underlying inflation, which excludes mortgage interest rates, below 2.5 per cent by the end of this parliament.

Mr George, giving a lecture on unemployment last night, told a London audience that "timely - and in the end, smaller - increases in interest rates" were less likely to damage investment and industrial confidence than inflation.

As usual, neither the bank nor the Treasury would comment on yesterday's meeting. However, it is believed that Mr George did not press for an increase in interest rates this month. As the governor has been more insistent than the chancellor on the need for timely interest rate increases in recent months, it was assumed that yesterday's meeting decided to keep base rates at 5.75 per cent for the time being.

The bank this week indicated that base rates would probably have to rise over the coming months, but it has shied away from recommending an immediate rise while monitoring developments "very carefully".

UK NEWS DIGEST

BAT may sue regulator in row about advisers

BAT Industries, which owns insurers Allied Dunbar and Eagle Star, said it might issue a legal challenge to regulators' plans for paying compensation to people who followed poor advice about taking a personal pension.

Mr Martin Broughton, group chief executive, said BAT believed life companies operating through direct sales forces – as Allied Dunbar largely does – should not have any compensation liability for investors who have been wrongly advised by independent financial advisers which then go out of business.

The Securities and Investments Board, the City of London's chief regulator, last week published a report on identifying and compensating people who had been wrongly sold personal pensions. It said life companies and advisers should review at least 350,000 cases within the next two years. Some estimates put the bill at up to £2bn ($3.2bn).

Lex, Page 16; BAT results, Page 17

Credit cards pay prostitutes

A pimp whose prostitutes were paid by credit card was sent to prison for four months yesterday. "Modern business practice has entered the world of prostitution," said a London judge as he sentenced Justin Golding, aged 44, who admitted four charges of living off the earnings of prostitution.

"In essence, Mr Golding provided the prostitutes with a factoring account," explained Ms Sallie Bennett-Jenkins, prosecuting. He provided each prostitute with imprinting machines without the usual trader's franking plate, and a variety of credit vouchers.

After card details had been recorded, the slips were given to Mr Golding, who ran them through another roller imprinter to record his business details before paying them in. He then paid the prostitutes their money after taking e commission of at least 15 per cent.

Call for adverts on BBC TV

The BBC2 television channel should be allowed to accept advertising and sponsorship, the Incorporated Society of British Advertisers said yesterday in response to the government's white paper on the future of the BBC, which is still financed entirely from the proceeds of the licence fee levied by the state from all users of television sets, whether or not they watch BBC programmes.

A mixture of funding from the licence fee and advertisers would enable the BBC to compete with growing satellite and multimedia rivals, said the society, which represents many of the UK's largest advertisers. Mr Ken Miles, society director-general, said reliance on the licence fee alone was a "high-risk strategy".

Lottery protest by church

THE NATIONAL LOTTERY

The Church of Scotland, which opposes gambling, is to decide in January whether to dispose of its 320,000 shares in Cadbury-Schweppes. The food company is one of five groups in the Camelot consortium, which is running the lottery starting later this month. The shares form part of the Protestant church's investment fund, the Church of Scotland Trust. The church's Board of Social Responsibility has already recommended that the church should refuse all money from funds that will be made available to charities from cash paid by the public for lottery tickets. The church said yesterday that it had bought shares in Cadbury-Schweppes long before the lottery was announced.

Life insurance tax to change

Changes in the taxation of life insurance are to be introduced with the aim of enabling UK life insurers to compete more effectively in the rest of Europe. The most important shift will affect taxation of "services business" where the insurer does not have to have an office in the country in which the policyholder lives.

This has been allowed only since the changes in European law on life insurance which took effect at the beginning of July. The UK taxes income to policyholders as it builds up in the funds. Most other European countries tax income when it is withdrawn from the fund and reaches the individual.

Sir George Young, a junior Treasury minister, said the British tax system already took account of this difference between tax regimes in the way it treated business carried out through overseas branches of UK life insurers. The changes represent an extension of that arrangement. The new system will apply from the next new accounting period.

Another likely change, but one which has not been announced, is the closing of a loophole in the existing system to make sure that the investment element of offshore reinsurance does not slip through the tax net.

Bank chief backs single currency

The government should bow to the inevitability of a single European currency, said Sir Nicholas Goodison, chairman of the TSB bank. "I believe it will come anyway as trade develops and producers and consumers increasingly see the nonsense of dealing in 12 or more different currencies in the conduct of their day-to-day trade," he said in e lecture at the London School of Economics. "The UK should remain firmly within the circle of European nations considering it. It will do us no commercial or financial good to be left out." Sir Nicholas said that a much greater sense of commitment to the European Union was needed by the UK. "Parliament should not be frightened of delegating decisions upwards or downwards."

Private sector to run state network

By David Owen

A new £150m computer system to hold records on National Insurance contributions is to be financed and operated by the private sector. The present system, which holds more than 61m records, is more than 20 years old.

The government is seeking private investors to develop, test and operate a replacement for the ageing National Insurance Recording System, one of the largest computer systems in Europe.

The aim is to have the new system in place by April 1997 when extensive government pension reforms are expected to take effect.

The project will be the first of its kind to be funded through the government's private finance initiative, which aims to encourage private sector investment in the delivery of public services.

If successful it could provide a model for the way the government handles other large investments in information technology. Bidders are expected to come from the ranks of large private information-technology companies.

The successful bidder will bear the entire initial capital cost of the project. The bidder would aim to recoup its investment and generate a profit by charging a small fee for every transaction to users – principally the state Contributions Agency, which is responsible for collecting and recording National Insurance contributions.

Bidding companies will therefore be taking a commercial risk both on the future volume of transactions and the amount of spare capacity they decide to build into the new system.

The government is expected to try and build in an incentive for the successful bidder to keep its technology up to date.

Businesses chafe at impact of 'green' laws

By David Lascelles, Resources Editor

Compliance with strict environmental rules is hampering British access to markets in other countries, the Confederation of British Industry, the country's largest employers' organisation, said yesterday. It added that many of its member companies faced difficulties in UK markets because the European Union'a environmental regulations were enforced more strictly in the UK than elsewhere.

The CBI published the results of a poll of members about the effects of the growing number of laws framed to protect the environment. A quarter of respondents to a CBI poll said they were experiencing difficulties gaining access to markets in other countries. Thirty per cent said that they suffered specific British disadvantages because of the stricter enforcement of EU legislation in the UK. "Wa think the competitiveness dimension should get a fairer hearing," said Mr Howard Davies, director-general of the CBI.

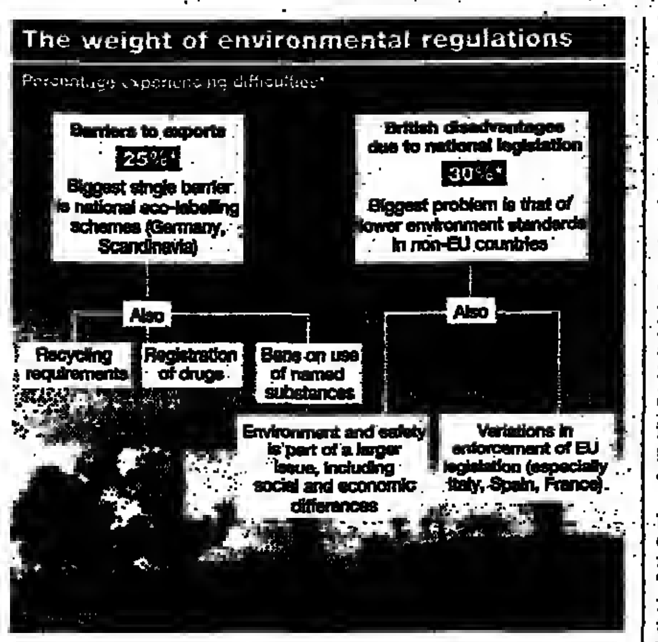
Many of the points in the report challenge the line taken by government on environmental issues, and are likely to provoke a response from Mr Michael Heseltine, trade and industry secretary, who will address the conference.

The CBI says there is little evidence for the government's claim that environmental legislation makes business more competitive by creating pressure for greater efficiency. This claim "has not been justified by a full analysis of the costs and benefits of legislation," the organisation says.

Nor, in the CBI's view, are new environmental initiatives providing "massive new opportunities for products and services" in the way trumpeted by ministers. "At present, too many businesses are falling foul of the pitfalls rather than seizing the opportunities," the employers' body says.

Mr Davies said industry was keen to get into a "win-win" situation where well-planned regulation brought benefits to business and the environment. "This is not a report which says 'We can't afford all this environmental regulation'," he added. "But it does reflect frustration over a lot of wasted effort."

The weight of environmental regulations



Minister fights cuts in roads programme

Dr Brian Mawhinney, transport secretary, is resisting heavy cuts in his department's budget amid signs that the Treasury wants to cut spending on next year's roads programme by up to £400m, James Blitz writes.

Although the government's public expenditure survey is due to be completed in the next few days, Department of Transport officials have been making last-minute attempts to resist reductions of up to 20 per cent in annual spending on motorways and other main roads.

Officials at the department have told the Treasury that a cut of that size would be excessive, making it difficult to provide maintenance for existing routes.

However, Dr Mawhinney and his colleagues have accepted that the annual £2bn roads programme will have to be cut in the next financial year.

They have decided that spending cuts must be targeted on big new projects and not urban bypasses. Five of the six biggest government projects are threatened.

Employers win concessions over pensions

The government plans to make concessions to employers in its pension reform legislation by watering down earlier solvency requirements that could have forced schemes to sell shares and buy UK government gilts, our Investments Correspondent writes.

It is understood that a bill will be presented to parliament in the second week in December. Although the proposals are current government thinking, "they haven't been etched in stone yet," and some further changes could be made, according to one party familiar with the talks.

The government proposed in June that each scheme should hold enough assets to be able to provide all members with the "cash equivalent" of their accrued pension entitlements.

The government intends to allow equity yields to be used for calculating cash injections for people within 10 years of their official retirement date. However, only holdings of UK equities will count for this purpose.

Moreover, it is intended that even when calculating the value of assets needed to pay current pensioners, equity yields can be used. Schemes will be allowed to use the higher equity yields when taking into account liabilities of pensioners with at least 10 years longer to live although again, only UK equities will count.

This new rule would apply only to large schemes, which are likely to be defined as those with assets of £100m ($158m) or more.

هكذا من الأصل

Did they tell you first?

(They did if you had Reuters Financial Television.)

Imagine being the first to know when a market-moving story breaks, vital minutes before your competition.

Imagine getting the story direct from the source, live, without delay.

That's the advantage you get from Reuters Financial Television. It puts live TV coverage of the financial news that matters in a special window right on your PC or workstation, integrated with your usual Reuter information.

Since its launch in June this year, Reuters Financial Television has carried an average of three live events every day, covering interviews, press conferences and speeches from the key players in international finance such as Tietmeyer, Greenspan and Mieno, many of them exclusively. The speed advantage over other services has been anywhere from 30 seconds to 2½ minutes.

Unlike conventional TV news it concentrates exclusively on financial events, and alerts you only when something relevant is happening. You'll also quickly get informed reaction and analysis from respected market analysts to ensure you have the complete picture, plus news updates throughout the trading day.

It's like being there as international financial figures shape the news. The competitive advantage is obvious. And of course it's nice to know they told you first.

Be there with Reuters Financial Television.

REUTERS
FINANCIAL TELEVISION

Making the best information work harder

For further information contact your local Reuter office or Area Headquarters

MANAGEMENT: MARKETING AND ADVERTISING

WPP's training mix

Martin Sorrell, chief executive of marketing services group WPP, hopes to capture the interest of up to five "ambidextrous brains" at Cambridge University today. WPP is offering a three-year graduate trainee programme spanning the advertising, public relations, design and research interests of the group. The trainee places – rather grandly dubbed "marketing fellowships" – are among the first of their kind in the sector.

Sorrell's presentation to final-year students will outline the demands of the constituent business as including "flair and slog; intuition and logic; left brain and right brain".

The programme, which is likely to extend to recruitment from other UK universities next year, and the US and East Asia in subsequent years, is part of WPP's efforts to strengthen cross-disciplinary understanding. Clients are looking, says Sorrell, for solutions that may not be primarily based in media advertising.

Recruits will move around WPP sponsoring companies – including J. Walter Thompson, Ogilvy & Mather, Hill and Knowlton, Millward Brown, Sampson Tyrrell, and the Henley Centre – before taking up a permanent post.

WPP's move coincides with another to develop practitioners capable of implementing the much vaunted "integrated marketing" approach.

The Integrated Marketing Communications Initiative, launched last week, embraces such bodies as the Public Relations Consultants Association, the Institute of Practitioners in Advertising, the Direct Marketing Association and the Sales Promotion Consultants Association.

Members of the trade bodies are being asked to sign up to a charter, pledging support for cross-disciplinary training and work placements. An advertising agency, for example, might offer a work placement to someone from a PR company, and vice versa.

Diane Summers

German agencies underestimated the differences between east and west in recent elections, says Judy Dempsey

Polls apart

Make it simple. Make it direct. And tap into issues with which people can identify. This was the message Dominique Kahane, a director of the Trialon advertising agency, used for a highly successful federal election campaign in eastern Germany.

Staff at Trialon, which represented the Party of Democratic Socialism, the successor to east Germany's former communist party, believed they had a considerable advantage over its competitors from among Germany's other established political parties.

"We are all easterners," says Kahane. "Our office is in east Berlin. Some of us grew up with the candidates. We knew the day-to-day problems the easterners have been having since unification."

Instead of focusing on general issues, Trialon homed in on unemployment and housing issues which preoccupy most east Germans. "The success of our campaign is in the result," says Kahane. The PDS polled more than 22 per cent of the vote throughout eastern Germany.

"If anyone wants to come to eastern Germany and try to market a product or a party, you have to do your homework," Kahane adds.

Germany's Free Democrats and Bündnis 90/Greens may be regretting that they did not take to the streets. Indeed, both parties are slowly coming to terms with the disastrous results inflicted on them in eastern Germany.

The FDP failed in eastern Germany to gain 5 per cent of the vote in the last federal elections. And along with the Greens, it failed to get represented in the eastern state parliaments of Thuringia and Mecklenburg-Vorpommern – neither could muster enough support to win 5 per cent of the vote, the minimum to enter these parliaments.

"If we want to do better in future, we will have to adopt a completely new strategy," says Wulf Oehme, the FDP's party manager in Berlin.

The lesson drawn by the FDP and other political parties during the federal election campaign is that east Germany is different – the results confirm this. Chancellor Helmut Kohl's victorious Christian Democrats (along with its Bavarian sister party, the Christian Social Union) gained 38.5 per cent of the vote in the east compared with 42.2 per cent in the west; the opposition Social Democrats 31.5 per cent and 37.6 per cent respectively; the FDP 4 per cent and 7.7 per cent; and the Greens 5.7 per cent in the east and 7.8 per cent in the west.

But the question is what kind of lessons the FDP and other parties have actually learned from the voting trends among east Germans.

"During the campaign, we had made no distinctions between east and west," says Oehme. "But we soon found out that several of the party organisations in the east say they would not even put up the same posters, even if they included Klaus Kinkel [leader of the FDP]."

The FDP (which used Ogilvy & Mather) also soon learned that its slogans and posters which tended to concentrate on Leistungsfähigkeit, or efficiency, meant nothing to the easterners. "There is, as yet, no strong entrepreneurial middle-class elite in eastern Germany. Also, if we used slogans extolling libertarian values, which is also the basis of our support in the west, we found out that these values had little relevance for the easterners," says Oehme.

The SPD also tried not to make any distinction in its election campaign between east and west Germany. But Frank Stauss from Butter, the SPD's advertising agency, says the party sometimes did focus on specific east German themes. One of these included property, a controversial issue in the east because former owners have been allowed to return and reclaim land which had either been confiscated by the Nazis or expropriated by the communists.

"We found an east German family and used them in our posters in the east. The slogan we used was 'What is ours, remains ours'," explains Stauss. "The easterners could identify with that."

Trialon's campaign for the PDS was aimed specifically at an east German audience

Throughout the campaign, the SPD discovered other differences between the two Germanys. "In west Germany those who come to the market place to hear a politician come because they support that party. In east Germany we found out that the same people came to the CDU and SPD rallies to find out more. You just cannot assume you have your supporters at each rally." Also in the east the SPD could take out a page of advertising spelling out policies in detail. "The easterners read more and want to know more than in the west," says Stauss. "Anyone coming into east Germany should know that there is still an insatiable appetite for information."

Kohl's CDU, however, refused to make any differences between east and west. "Our strategy had two main aims," explains Elke Tonscheidt, a CDU official involved in the campaign. "The first strategy was to regard Germany as one country. So we kept the same slogans throughout. The second strategy was the Chancellor himself. It was his personality we were selling both in east and west Germany. We never deviated from that."

All parties concede that personalities mattered during the campaign, but they also agree that knowledge about local or regional conditions proved crucial. "Despite five years of German unification, no marketing agency should take anything for granted in the east. The differences are narrowing. But there's a long way to go yet before both Germanys are really united," says Kahane.

Credit cards go awooing

Alison Smith on an increasingly cut-throat UK market

Must have a good credit rating, yet be sufficiently relaxed to spend regularly without wanting to pay off the bill each month.

It may sound like a mercenary "lonely hearts" advertisement, but the line neatly sums up the qualities that all credit card issuers are looking for these days. Despite the £10-£12 annual fee most of their profit comes from the annual percentage rate charged on *outstanding* bills.

Their common aim notwithstanding, players in this *increasingly cut-throat business* have adopted a diverse range of marketing strategies over the last year.

An important catalyst was the launch of the GM card from Vauxhall last October, followed by the entry of other surprising issuers, such as newspapers. No one expects the contest for customers to do anything but intensify.

GM stepped up the competition for credit card customers – who splashed out almost £26bn in the first nine months of this year – by offering an annualised percentage rate (APR) of interest below that charged by the largest issuers, no annual fee, and points towards a discount on buying a Vauxhall car. One year later, there are about 450,000 GM cards in circulation.

Save & Prosper, the investment house, has found that a combination of advertising and close targeting pays off. The card is available only to UK home owners, and its main selling point is an APR among the lowest on offer. Mark Christopher, S&P marketing manager, admits the strategy cuts across conventional wisdom, but says press advertising gives a better cost per inquiry than direct mailing – or did when the latter was last tried in 1990.

Advertising's effectiveness may lie in the fact that S&P is content to have built up gradually to its current 200,000 or so cards issued jointly with Robert Fleming.

A further factor is that it is aiming to attract a relatively narrow group of people who know they intend to borrow and so are "rate sensitive": for others the existence of an annual fee is more of a deterrent, since they pay off the bill in time to avoid interest charges.

The marketing campaign for the GM card, by contrast, has been intended to win market share more quickly and more broadly for a brand previously unfamiliar to the UK market.

Emma Seredynj, marketing manager for the GM card, says the campaign has been based on an integrated approach, involving television and press advertising, posters and direct mail shots with the aim of ensuring that someone who receives a letter would already be aware of the card and have some idea of what it offered.

For cards issued by the main clearing banks and some building societies the marketing challenges are different.

The aim may be simply to reach the customer with whom the organisation already has another – probably more important – relationship.

At Halifax Building Society, for example, credit cards are outside the core business of savings and mortgages, but part of offering a full range of financial services.

John Walsh, assistant general manager of banking at Halifax, says there is therefore little point in television or press advertising, and much more to be gained from targeting the society's 12m customers.

Although Halifax is one of only two issuers to offer interest on credit balances, Walsh sees such peripheral benefits as little used and admits it can be difficult to differentiate credit cards. "There is a great deal of inertia [among customers in personal financial services], and so we want to be first to offer the service," he says.

For Barclaycard, which with 8.8m cards has the largest share of the 27m card UK credit card market, the issue has been different again. While it is part of the Barclays group, as a credit card operation it wants to emphasise its availability to customers of other banks as well.

Its most striking marketing strategy this year, however, has been its offer of rebates of up to £150 to credit card holders transferring outstanding debts from other cards.

This tactic – typically used by small issuers trying to break into the market – is a further sign of the increasing competition.

Shaun Powell, Barclaycard's commercial director, believes that this will see the market split into two types of card: the "vanilla" product with no annual fee and a low APR but no extra benefits; and cards that have higher costs but are marketed on the basis of "added value" – including insurance, a range of discounts, and the opportunity to benefit good causes and even political parties.

However desperately card issuers seek the ideal customer, it seems the need to develop and market a card offering everything for nothing indefinitely is still a long way away.

TECHNOLOGY

The agreement that North Korea is currently preparing to sign with the US to limit its nuclear programme may avert a potentially dangerous proliferation of atomic weapons material in Asia. It also has ramifications for the handling of the nuclear non-proliferation treaty, due to be renewed next year. How the west handles its own nuclear disarmament, and how it deals with developing countries' nuclear ambitions are central in the debate about nuclear proliferation.

But the story of the North Korean nuclear programme has a more disturbing resonance from the west's recent past. Two books published recently about the British and Soviet atomic bombs show just how closely the Koreans were following the path which the second world war allies trod 50 years ago.

The kind of nuclear reactors Korea built recently, and the purpose for which they were intended, are almost identical to those constructed by the US, the UK and the Soviet Union during the 1940s.

Those interested in the science and engineering of how an aspiring weapons state might go about building a nuclear bomb can learn much from either of these books. David Holloway's* is the more serious, and is an important addition to the history of the Bomb. Brian Cathcart's account** is lighter, and sadly misses out much of the detail that gives Holloway his authority.

Yet the scientific detective story, the romance, and ultimately the horror of the original development and use of the atomic bomb is still best set out in Richard Rhodes's award-winning and definitive story first published in 1986***. As well as technical detail, Rhodes picks out

Bernard Gray reviews two books which show that the story of how the Bomb was born has lessons for today

Bang up to date

the human side of the story: the struggles of physicists, many Jewish fugitives, against technical challenges and political obstacles makes compelling reading. His account of Hiroshima is harrowing.

The two more recent books lack the thrill of the initial chase and its sickening conclusion, but they throw fascinating light on the similarities and differences between the US, Britain and the Soviet Union. Cathcart's book is written in a less academic style, but both books tell parallel stories about the same period and inevitably view the same incidents through different lenses.

In all three countries bureaucratic bungling held back development. It was more than two years after Einstein wrote to Roosevelt, warning the president of the possibility of the Bomb, that there was a significant US effort to produce atomic weapons.

In the Soviet Union Stalin had received excellent intelligence from Britain and the US on the critical issues in bomb development, but Russia in the early part of the war was thinking of survival in terms of weeks, rather than the years that the new superbomb would take.

Even when the USSR regained the initiative, Molotov, the foreign secretary, did not trust his own scientists and believed the reports could be a plot by the west to make Russia waste resources on a pointless scheme. Only Hiroshima finally shifted official Russian attitudes.

Britain had more mundane concerns. Having been ahead in 1940, thanks largely to a brilliant analysis of the main problems by Frisch and Peierls at Birmingham University – leaked wholesale to the Russians – Britain refused to share its work equally with the US. The Americans soon pulled ahead and it was not until 1943 that the US readmitted the UK to the project.

Despite the UK effort to help develop the Bomb, the US cut Britain off from atomic research after the war. Attlee then determined that Britain must have at least the capacity to build nuclear weapons. William Penney was encouraged to head the project but he ran headlong into Whitehall. Other departments were so jealous of resources that they refused to supply half a dozen draughtsmen for a project the prime minister had given the highest priority.

There are many such vignettes in both books. Beria, the secret police chief in charge of the Russian Bomb, made a list of those to be shot or deported to Siberia if the project failed. When it worked, he used the same list: those who would have been shot were made Heroes of Soviet Labour; those to have been deported received lesser honours; those who would merely have been sacked got commendations. In the UK, Penney got a knighthood.

The Americans, once persuaded of the viability of the Bomb, were typically thorough and threw enormous effort and scientific skill at it. By 1945 the project had cost $2bn (£1.2bn). The British were typically proud of the fact that they built their Bomb on a shoestring. The Russians poured in the full resources of the command economy and had no idea how much they spent. "Give them what they want," Stalin told Beria, "we can always shoot them later."

Neither the British nor the Russians made much of the fact that their first atomic bombs were direct copies of the original US design.

Chillingly, given how much technology has progressed since, that design is nearly the one that would be used by a nascent weapons state today. Those trying to learn the lessons of 50 years ago can see clearly that once the physics had been established, getting plutonium or enriched uranium was the hardest problem. Producing it requires enormous, expensive sites, which are relatively easy to spot, as in Korea.

Controlling the production and flow of plutonium is the only way to keep the nuclear genie even half way in the bottle. The destructive power of the Bomb, vividly described in these books, makes that an urgent task for the negotiators to take on.

**Stalin and the Bomb: the Soviet Union and Atomic Energy 1939-1956. David Holloway, Yale University Press 1994, £22.50*

***Test of Greatness: Britain's struggle for the Atom Bomb, Brian Cathcart, John Murray (Publishers) 1994, £19.99*

****The Making of the Atomic Bomb, Richard Rhodes, paperback, Penguin 1988, £10.99*

Power cable conduct

The world's first prototype superconductor power cable is to be made by a consortium of companies and laboratories with backing from the US Department of Energy.

American Superconductor, a leader in the development of superconducting wires, Pirelli Cable, a division of the Pirelli group, and the Electric Power Research Institute (EPRI), which is funded by US electrical utility companies, will undertake the project with researchers at three of the US National Laboratories.

The goal is to make a 30m superconductor underground power transmission cable, to be tested under real operating conditions by EPRI. The $5.8m (£3.7m) project will be funded jointly by the Department of Energy and the companies.

Superconductor materials lose resistance to the flow of electric current at low temperatures. The first metal superconductors, discovered early this century, had to be cooled to nearly 4° Kelvin, or or -454°F.

In 1986, however, "high temperature superconductor" (HTS) ceramics were discovered. These materials exhibit superconductivity at temperatures up to 130°K or -225°F, substantially reducing the costs of cooling.

The cable will be made by stranding HTS wires round a hollow core. The superconducting material is cooled by running liquid nitrogen through the cable. "We are truly approaching the commercialisation of HTS power transmission cables," says Giuseppe Morchio, general manager of Pirelli's cable operations. "The cables demonstrated under this programme will show the improved performance and reliability that HTS technology can provide."

The prototype cable will be able to carry more than twice the power of conventional copper cables of similar size. Ultimately, superconducting cables are expected to be able to carry many times the power of copper cables with lower energy losses.

Louise Kehoe

David Buchan on a French project to make Europe's spy satellites less US-dependent

Military eyes in the sky

In one respect, president Saddam Hussein's imitation of the grand old Duke of York in marching his men to the Kuwaiti border and then marching them back again came at just the right time for the French government.

It helped remind France's politicians, taxpayers and European partners how essential satellite intelligence was to tracking the vagaries of Iraqi troop movements this time, just as it was during the Gulf war of 1991; it reminded averyone of why Paris plans to raise spending on military space activities, mostly spy satellites, by 24 per cent to FFr5bn (£590m) in 1995 alone.

France's overall political aim is to make itself in particular, and Europe in general, less dependent on the US for military satellite information. In the 1991 war France's Spot civil satellite produced a useful complement to the Pentagon's KH (Key Hole) military satellites, because Spot produces stereoscopic photos, providing a three-dimensional image. But Spot lacks the pinpoint detection of America's "Big Birds", as it is unable to detect anything less than 10m wide.

France has been spending heavily on military satellites since 1986 when it started the Helios I programme with Italy and Spain which are funding, respectively, 14 and 7 per cent of the programme.

Early next year Ariane is due to put into orbit the first Helios 1 satellite, whose images will be processed at Torrejon in Spain. This ex-US Air Force base near Madrid has been converted into a satellite picture processing unit run by the Western European Union, the defence wing of the European Union, which has so far only been fed hy images from Spot.

Tha French are well aware, however, that Helios I is far from completely answering Europe's needs. It may cost more than FFr11bn, but it is simply an optic system and can take photographs only during the day and in good weather. Enough, perhaps, to cope with the interests that Helios I's three partners have in the Mediterranean, but not much good for covering the often-cloudy regions of northern and eastern Europe. Nor will the planned successor programme, Helios II, be mnch better in this regard; its infra-red imaging will penetrate night, but not heavy cloud. Spain also said this summer that it would drop out of the FFr7bo Helios II programme because it could no longer afford its 7 per cent share.

But hopes are rising in Paris that Germany may at last join in – not necessarily in Helios, hut possibly in France's Osiris project for a radar satellite, or in a much more ambitious Europe-wida project being discussed in the WEU. The German government and industry are much more interested in spy satellite datection by radar that pierces clouds and can even reveal subterranean objects, such as bunkers, lying in several metres of loose soil, such as sand.

A feasibility study conducted for WEU defence ministers by some 30 companies under the leadership of Deutsche Aerospace (Dasa) and a subsidiary, Dornier, which makes medium-range turboprop aircraft, puts tha cost of a complete system at np to Ecu14bn (£11bn) over a life of roughly 1997 to 2022. This seems expensive, bnt perhaps less so given that WEU's 10 member countries could split the cost over a quarter century and given that the system would inclnde a mix of manoeuvrable radar and optic/infra-red satellites with space-based relay stations. The optic/infra-red satellites would have a resolution down to 50cm-100cm, while that of the radar satellites would be 3m.

Different platforms are needed because radar imaging is carried out at an oblique angle and therefore on a satellite on a different orbit to optic or infra-red photography which is conducted vertically above the target. As for relaying images to the processing centre, the only alternative to space-based relay stations would be to have ground stations around the globe.

Not surprisingly, the WEU project is hanging fire. Cost is the overwhelming drawback for all WEU members. Bnt there is perhaps another element in the opposition of the two most reluctant countries – Britain and the Netherlands. While both are attached to Nato, the UK is the only Nato ally to which the US gives raw images from its satellites, rather than the processed data Washington gives to the rest of the alliance.

PEOPLE

More feet under Stylo's table

Stylo, the Bradford-based footwear retailer and manufacturer, yesterday promoted Michael Frankel, 50, and Stephen Lewis, 42, to the main board, restoring the complement to 10 following the departure of Mike Smith and the retirement of Patrick Hammond-Turner in the summer.

Smith, who was finance director, went to Athena, the Pentos subsidiary, as md. This consolidated the position of Stylo's group md Michael Ziff, 41, who was redesignated as chief executive in yesterday's changes.

"The change of title is to help people outside avoid confusion with our divisional managing directors," Ziff said, when asked about the adjustment in nomenclature. Frankel will continue in one such divisional role, as md of Stylo Barrett shoes. Lewis, a scientist with a PhD, will have overall responsibility for information technology and distribution.

Stylo is hardly a household name for a company owning 500 retail outlets, but Barratts, the name over most of their front windows, is. It was this universal high street presence that led to Conrad Rithlat's British Land trying to lever its way into the company during tha 1980s property boom.

The concerted efforts of employee and Ziff family shareholders beat off the challenge, led by the redoubtable Arnold Ziff, now 67, the chairman – and Michael's father. Ziff the elder also chairs the Leeds-based Town Centre Securities and is one of Yorkshire's business establishment.

Will he now be taking a back seat? "He is very mnch involved and, as usual, telephoned me from London at 8 am this morning for Tuesday's sales figures," Michael Ziff said yesterday. Thanks to the computer technology new director Lewis is in charge of, they were immediately available.

Lord Rodgers to chair ASA

The UK's self-regulatory body controlling advertising standards – the Advertising Standards Authority – has appointed a new chairman to replace Sir Timothy Raison when he retires at the end of his four years on January 1 1995.

The new chairman is to be Lord Rodgers of Quarry Bank, former member of parliament for Stockton-on-Tees, later Stockton North, between 1962-83. He held a variety of cabinet posts in Labour governments. More widely known as Bill Rodgers, ha was a long-standing member of the Labour party until in 1981 he

defected to be a founder member of the Social Democratic Party along with Shirley Williams, David Owen and Roy Jenkins.

In 1987 he gave up being the SDP's vice-president to take a £65,000 a year joh as director general of the Royal Institute of British Architects, a post he held until February this year.

Rodgers, 66, is now a Liberal Democrat and was created a life peer in 1992.

During the SDP's party conference in 1987 he was reported as saying that "politics is a painful, damaging and often cruel business". With such a background, monitoring legality, truthfulness and decency in the world of advertising should be a piece of cake.

Non-executive directors

Sir Clive Whitmore, 59, the former permanent under-secretary at the Home Office who took early retirement, is joining the board of merchant bankers N.M. Rothschild & Sons.

He has already joined the boards of Boots and Morgan Crucible and joins Rothschild as a non-executive director on December 1. Although he will be one of more than 20 non-execs at Rothschild, the merchant bank has taken the slightly unusual step of announcing that "his principal task will be in the field of human resources". Sir Clive has much experience in human resource work, not least in senior appointments and selection procedures.

Rothschild has long had close ties to the Conservative government and Sir Clive is the latest in a growing list of ex-civil servants who have ended up in Rothschild's boardroom. These include Sir Frank Cooper, a former permanent under-secretary at the Ministry of Defence, Lord Armstrong, a former Cabinet Secretary, and Sir Derek Thomas, a former Foreign office official and ex-Ambassador to Italy.

Sir Clive was principal private secretary to Margaret Thatcher for the first three years of her government and subsequently permanent secretary at the MoD and the Home Office. When he resigned from his last job there was speculation that his early departure may have been linked to policy differences with Michael Howard, the Home Secretary.

■ Howard Poulson, chief executive of Parnell Electronics, as chairman of PERA INTERNATIONAL in succession to Viscount Raynham.

■ Robert Jordan, Magnus Mowat and Robert Paine have resigned from SCHOLES GROUP.

■ John Siebert, a former deputy chief executive of Reed Business Publishing, at INSIDE COMMUNICATIONS.

■ Jack Shaw, deputy governor of the Bank of Scotland, at The SCOTTISH METROPOLITAN PROPERTY.

■ Brian North, chairman of Games Workshop, as chairman at GEARHOUSE GROUP.

■ David Thompson, md of Wolverhampton & Dudley Breweries, at EXPLORATION CO.

■ Stuart Hepburn, a director of Gartmore Investment Management, at CHARLES TAYLOR & Co.

■ Trevor Harrison, retired general manager planning for ICI, at CHELSEA BUILDING SOCIETY.

Constructive careers

Hammerson's drive into continental Europe has taken a step forward with the appointment of Oliver Ash as managing director of the group's European operations. Ash, 36, is a committed Europhile, having lived in France, Germany and Italy for the past 11 years.

Between 1987 and 1992 he worked for property developer Shaftesbury, huilding office blocks and retail centres across the continent. When the development markets froze with the onset of recession, Ash set up his own Paris-based consultancy and was happily running his own business when Hammerson approached him earlier this year. He will continue to live in Paris in his new role.

Since one of Hammerson's declared aims is to expand its property portfolio in continental Europe, Ash should have sufficient funds at his disposal. The £250m proceeds from the disposal of the group's Australian interests are widely expected to be reinvested before long, with French shopping centres tipped as the most likely first move.

While Hammerson is looking to huy investment properties rather than developments, Ash's experience in development will give the group more options. "I have no doubt that my developer's keen eye will come in useful," he says.

■ Maureen Whalley, formerly sales director of Rawlings Homes, has been appointed md of BOWEY HOMES.

■ Jon Lloyd, former md of Yorkshire Water Estates, is appointed md of DTZ DEBENHAM THORPE in Leeds.

■ Gerald Kaye has been promoted to the board of HELICAL BAR.

■ Philip Cleaver (below), formerly md of the engineering division of Norwest Holst, has been appointed md of HALL & TAWSE Partnership.

Almost every time a famous literary classic is re-filmed, the director makes a production number out of claiming that he has "gone back to the original."

This prompts several questions in the sceptical mind. How many originals are there to keep going back to? Do we *want* a film to go back to its original? And how *many* people, as well as myself, look forward to the day when a director has the nerve and freshness to say, "We didn't give a monkey's about the original. We threw the book away unread. We did our own thing."

Kenneth Branagh, the star and director of *Mary Shelley's Frankenstein*, claims that he has gone back to the book. But almost everything good about this film lies in its abjuration of the literary; almost everything bad in its cumbrous invocation of it.

Mary Shelley created a great central idea and a two great central figures: Victor Frankenstein the crazed New Age scientist, and the creature he cobbles together from other people's spare parts. But the story that the novel sets spinning around this Promethean sun is weak and diffuse. Too many satellite characters are brought in merely to be burned up. And the geography tacks recklessly, pointlessly across terrestrial space from Geneva to the Orkneys to the Arctic.

The film's second half mimics these miscreant components. Branagh's Frankenstein, if he lived today, would qualify for frequent flyer points. Now he is in cholera-ridden Germany. Now he is hunting murdered relatives in Switzerland. Now, at a come-and-get-me cue from Robert De Niro's creature, he is hacking his way around the North Pole.

To compensate for topographical jump-cuts, the screenwriters Steph Lady and Frank Darabont anchor the drama at other points with leaden, spell-it-for-morons dialogue. Hero's mother (Cherie Lunghi): "You know, Victor, life shouldn't be all study." Hero's girlfriend (Helena Bonham-Carter): "Victor, you're completely obsessed." Victor: "There's something at work in my soul which I do not understand."

We know that, Victor. We have intuited it. We do not need it written up on the blackboard.

Then suddenly Branagh will throw away the book, and the script, and the ghosts of the Lake Geneva gang of four whose story-writing symposium produced this fable, and run amok with the camera. The laboratory scenes are magnificent. We bob, weave and soar through airspace – courtesy of director and cinematographer (Roger Pratt) – while Branagh's bare-torso'd super-boffin charges around the Heath Robinson bric-a-brac. Steam swirls. Pipes hiss. And the overhead trolley-rail, carrying the huge copper immersion tank containing the first man-made man, clatters like a rollercoaster.

Out of this tank emerges Robert De Niro, scarred and naked and tumbling onto the wet floor for a funny-horrific eel dance between Frankenstein and his grisly, slithery catch. This scene, as semi-nude creator struggles to set wholly-nude creature on his feet, has the tone the whole film might profitably have had. A horror-comedy version of Genesis: where God is played by man, temptation by a monstrous man-fish, and the Garden of Eden by an overgrown attic with its metallic jungle of gewgaws.

But as soon as the creature escapes, so does the film's compacted passion. There is no terror in De Niro's lumbering scarface in a greatcoat: just a husky-familiar De Niro slur delivered with that cocked-head abstractedness we know from a dozen De Niro roles.

Watching the film is an exercise in frustration. There are flashes of brilliance as bright as lightning bolts: like the two horrific long-roped hanging scenes, in which Branagh has dreamt up a bungee style of execution for early 19th century Europe; or like the camera's queasy glidings over the Frankensteins' giant staircase (imported from Kane's Xanadu?) as people stumble up or down it carrying fresh disasters.

As an actor's director Branagh may be the best in the business. He wrings the last drop of idiomatic life from players like Ian Holm, as father Frankenstein, and John Cleese, improbably but effectively cast as a grim sawbones. And Branagh's own performance is pure, barnstorming splendour.

But there is a point in this story when panache no longer has a premium. We want alarm, foreboding, cold panic, *timor mortis*. The movie's poster carries a warning: "Certain scenes may prove disturbing for some viewers." What scenes? Did I miss them? Were they taken out? If so; back to the laboratory, please, for the "Director's Version."

A barnstorming performance: Kenneth Branagh in 'Mary Shelley's Frankenstein'

Cinema/**Nigel Andrews**

A monster with flashes of brilliance

MARY SHELLEY'S FRANKENSTEIN (15)
Kenneth Branagh

DARK SUMMER (12)
Charles Teton

LOVE IN THE STRANGEST WAY (15)
Christopher Frank

For most of its span Charles Teton's *Dark Summer* seems so inert that we keep poking it with our perceptions, as if it were a hedgehog at the side of the road. Is it dead or just playing dead? A gently chugging reggae score accompanies images of a picturesquely distressed Liverpool – soot-black sunsets, grey rivers, dry-docked ships – while two scarce-constructed characters meet, love and drift apart.

He is Abe (Steve Ako), a coffee-coloured mechanic and would-be boxer. She is Jes (Joeline Garner Joel), a white girl temping at her father's scrapmetal yard. They meet and link destinies. Then they go through pregnancy, miscarriage and break-up.

It is hard to convey the extent to which nothing happens. For 84 out of 85, the filmgoer fidgets while first-time director Teton sets up his Merseyside *tableaux vivants*, like a neighbour readying hapless friends for his holiday slides.

Only in one magically pained scene does the film gel. The two lovers are in bed, she turned away from him. He braves a single, cramped, anxiously reaching word, "Jes"; she does not answer. The camera, on his face, watches that moment of numbed, irradiated awareness when an entire relationship crumbles. A film whose "economy" elsewhere seems that of artistic poverty stumbles, for a small second, on the true economy of tragedy.

★

France's *Love In The Strangest Way* tells of a married man (Thierry Lhermitte) who falls for a bit on the side (Nadia Fares). The bit in question, a mystery redhead met at a café, is soon harrying him and his wife (Maruschka Detmers) right up to the murderous climax. She has clearly seen, as has writer-director Christopher Frank, *Fatal Attraction*.

Early scenes involving marital paranoia and an accident-prone rocking horse are promising. But then the plot becomes progressively Hollywoodised. Sinister phone calls; a death-dealing shovel; a "body" behind a wall; and a twist ending that succeeds only in knotting beyond repair our already tangled braincells.

But the French film beats the two short German "comedies" opening together this week. Did the UK distributors win these in a raffle? In *Making Up* two love-seeking women friends have fun and heartache dating two tiresome men. And in *The Most Beautiful Breasts In The World* a pneumatic girl surreally swaps mammaries with a man after bumping into him in a lift. Laugh? At the press show you could hear a handout drop.

In the same programme there is a ghastly New Zealand short about a girl dating an extraterrestrial. What did we do to deserve this triple bill? Did we all say "trick" instead of "treat" last Monday? Never mind. There is always the London Film Festival. Worth sampling during the coming week: one each from Taiwan, Cambodia and India (*Eat Drink Man Woman*, *Rice People*, *Bandit Queen*) and a clutch of celebrity interviews including Hal Hartley, Christopher Lee and those nice *Creature Comforts* folk from Aardman Animation.

Dance

Angelin Preljocaj

It is not the opportunity for rabid foxes to race into this country that bothers me about the Channel Tunnel, but the increased threat from European modern dance troupes.

So I thought during two-thirds of a Dance Umbrella evening on Tuesday at Sadler's Wells. There on stage were the choreographies and dancers of Angelin Preljocaj (Albanian-French and much admired on the European dance circuit). I have reported on his work before, with some reluctance. As with so much French modern dance, I find his creations intellectually costive, top-heavy with meaning and woefully thin in movement.

Preljocaj's programme had the unmitigated gall to call itself a *Homage to the Ballets Russes*. The first piece – *Un trait d'union* – was wholly unconnected with Diaghilev's enterprise. It showed two chaps trying to pick each other up, physically as well as sexually, while having hell with a squat chair. It claimed to be about the quest for what is known today as "a relationship". Like so much of this kind of modern dance, it was about bad manners – social, sexual, emotional – which are as boring on stage as they are in life. The men climb over each other, and show remarkable muscular sympathy, while Bach and electronic clatter ring out. And, of course, they end up as they began... alone. Someone imported a baby into the stalls on Tuesday night: its cries of distress indicated that a critical faculty can be encouraged at the earliest age.

There followed a shameful assault on *Le spectre de la rose*. The stage laterally divided. Two girls, two matadors and two chairs on one side. On the other, a crop-headed maiden and a man in a rose-petalled outfit trying to toss her like a caber. The Karajan recording of Weber's waltz – broken into by sounds of a dripping tap and faint hurblings, of course. Further comment would be an act of supererogation.

All this was Eurotrash of the most debilitating kind. With his version of *Les Noces*, Preljocaj succeeded in a reappraisal of the Stravinsky score. His theme is still marriage, here seen as an event in which stereotypical male attitudes remain potent. Five couples. Five benches. Five large dummies dressed as brides. Much throwing of bodies, and of the dummies which serve as ideals and role-models for the women. The choreography touches the score hardly at all – hearing all those rhythms going to waste was rather like watching fivers thrown in a dustbin. What Preljocaj does identify is the persistence of social roles – and his piece has value because he uses movement to convey this. The language is not very enterprising – his is a catch-as-catch-can style – but the dance has theatrical shape, and comments aptly on a Ballets Russes original. It was done with brilliant timing and energy by its cast.

The end of this week will brings a Wells visit by Siobhan Davies' company in two works – *Wanting to tell stories* and *The Glass blew in* (with a fine Gavin Bryars score) – on which I reported admiringly earlier this year.

Clement Crisp

Theatre/**Alastair Macaulay**

Entertaining Mr Sloane/Loot

It is only 26 years sinca Joe Orton's death. Had he lived, he would today be only 61 years old. Almost nothing in his black comedies has dated. The connections between greed, lust, and criminality remain heartstoppingly funny; and some of his jokes about the Kafkaesque British police in *Loot* are astonishingly "now".

So it is upsetting to discover how seldom his plays are revived in appropriate style. Orton's supreme joke is in his ironic – Wildean – mastery of language. Characters frequently speak with precise formality about matters carnal and/or criminal. Fay to Mr McLeavy (in *Loot*): "You've been a widower for three days. Have you considered a second marriage yet?" The lines need maximum clarity and minimum interpretation. The more suave their delivery, the more delicious their irony.

Or so it seems to some of us out there in the dark. In recent years, however, each Orton revival I have seen has been less stylish than the last. The Birmingham Rep is now presenting an Orton double bill – directed by Gwanda Hughes, designed by Kate Owen, with four actors performing in both plays – in which *Loot* is creakily entertaining and *Entertaining Mr Sloane* staggeringly short of innuendo.

It does not help Orton's comedy if the hostess Kath, telling her new lodger Sloane that she has nothing on under her dress, reveals a firm petticoat; or if, where Orton specifies a "transparent negligee", she wears a fluff-lined dressing-gown. Apart from these mere external factors, Stephanie Fayerman's interpretation – pigeon-toed, half-gauche and half-dainty, hysterical – is woefully over-emphatic, making a heavy meal out of the character's non-U nursery talk and utterly missing the classic English joke of her romantic social pretensions ("You have the air of lost wealth... Did Dr Barnardo give you a bad time?").

Michael Cashman does better as her brother Ed, hut he usually stresses the creepy side of Ed's homoerotic desires while not knowing how to make them disarmingly funny too. As Mr Sloane, who seduces them both, young Ian Pepperell (though physically too slight) has the right inscrutability, but not nearly enough skill in nuance. Sloane is a heartless thug who fools people he is an innocent – an innocent in need of firm... guidance; and his deadpan account of his sporting... activities should be irresistible.

When Orton is not well enough acted, his originality dissolves. Watching the Birmingham *Loot*, however, you are aware of little but Orton's subversive novelty. Each character is consistent, but there is just enough absurdity in the air for us to be undermined by hilarity.

Too much absurdity, actually. Most of the cast – especially Cashman as Inspector Truscott – have such fun with Irish or Scouse accents that they stress some words more for sound effect than for sense. Still, Cashman plainly relishes his role; as does John Rogan as the bewildered widower Mr McLeavy. Pepperell's Hal and Ian Targett's energetic, nervous Dennis give fluent accounts of the two unscrupulous young coffin-despoiling bank-robbers. Fayerman, as the much-married killer nurse Fay McMahon, still overdoes the husy gestures and *oeillades*, but here she adopts the right basic suavity. (Good Orton must hover persistently on the brink of camp.)

Wittily, Kate Owen has located the two plays next door to each other, in two halves of one semi-detached bouse on the same revolving stage. Two of the problems in *Sloane* are that she obliges us to see action (in the kitchen, or upstairs) that Orton meant to occur offstage, and that she shows us the flock of cuddly-toys that Kath keeps in her bedroom. (Doesn't much of Orton's essence always lie in what he does *not* show us?) In *Loot*, however, we see little save what Orton meant us to see, and the comedy of what is seen and unseen flourishes.

At the Birmingham Rep.

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Tomorrow: Anna Tomowa-Sintow sings opera arias. Nov 8, 10, 12: staged production of Poulenc's La voix humaine, starring Jeanne Pilou. Nov 13-16: Bolshoi Ballet (01-728 2333/01-722 5511)

■ BOLOGNA

Teatro Communale Sat, Sun: John Nelson conducts Orchestra of the Teatro Communale in works by Tchaikovsky and Shostakovich, with piano soloist Grigori Sokolov. Mon: Luciano Berio conducts O.R.T. Orchestra della Toscana in Maderna, Stravinsky, Ghedini and Berio, with viola soloist Aldo Bennici. The opera season opens on Nov 26 with a new production of Rossini's Il turco in Italia (No telephone bookings. Information: 051-529999)

■ GENOA

Teatro Carlo Felice Tomorrow, Sat afternoon: Spiros Argiris conducts orchestral works by Stravinsky, Respighi, Debussy and Rimsky-Korsakov, with clarinet soloist Romolo Tisano. The opera season opens on Dec 2 with Der fliegende Holländer (No telephone bookings. Information: 010-589329/010-5381 225)

■ LONDON

THEATRE

● Hamlet: the Globe Theatre re-opens tomorrow as the Gielgud with Peter Hall's new production of Hamlet, starring Stephen Dillane, Michael Pennington, Donald Sinden, Gwen Taylor and Gina Bellman (Gielgud 071-494 5065)

● The Prime of Miss Jean Brodie: Patricia Hodge takes on the role of the formidable schoolteacher whose mix of romance and wilfulness inspires her pupils. This is the first major London revival since 1968 of Jay Presson Allen's stage version of *Muriel Spark's novel (Strand* 071-930 8800)

● Romeo and Juliet: Dusseldorf Schauspielhaus presents Karin Beier's German-language production of Shakespeare's play tonight, tomorrow and Sat. This is the first in a series of *international Shakespeare* events at the Barbican, which will include an adaptation of King Lear from Japan (Nov 9-12) and Peter Sellars' Chicago production of The Merchant of Venice (Barbican 071-638 8891)

● A Passionate Woman: Ned Sherrin directs a new production of Kay Mellor's play, first seen at the West Yorkshire Playhouse last year. Stephanie Cole stars as the housewife whose passion for life breaks out to the horror of her family. Now in previews, Press night on Mon (Comedy 071-369 1731)

● Moscow Stations: a one-person play, starring Tom Courtenay, inspired by Venedikt Yerofeev's acclaimed modern Russian tala about an alcoholic who stumbles and dozes his way through a series of surreal adventures (Garrick 071-494 5085)

● The Seagull: Judi Dench's Arkadina heads a splendid cast in Pam Gems' new version of Chekhov's play about disappointed aspirations. In repertory at the National with The Devil's Discipla, Bernard Shaw's 1897 satire on melodrama, and Racing Demon, David Hare's play about tensions in the modern *Anglican Church* (National, Olivier 071-928 2252)

● The Children's Hour: Harriet Walter and Claire Higgins head the cast in the National Theatre's new production of Lillian Hellman's 1934 drama about lesbianism, directed by *Howard Davies. In repertory* at the Lyttelton with Tennessee Williams' Sweet Bird of Youth directed by Richard Eyre, and Arthur Miller's new play Broken Dreams (National, Lyttelton 071-928 2252)

● Arcadia: Trevor Nunn directs *Tom Stoppard's complex but often* funny drama that won the 1994 Olivier Award for Best Play (Haymarket 071-930 8800)

● She Loves Me: the charming 1963 Masteroff, Bock and Harnick musical about two longtime pen pals who don't know they work in the same parfumerie. Ruthie Henshall and John Gordon Sinclair head the cast (Savoy 071-836 8888)

OPERA/DANCE

Covent Garden The Royal Ballet opens its 1994-5 London season tonight with a gala performance of Anthony Dowell's new production of Sleeping Beauty (repeated Nov 7, 18, 19, 23, 28). The company also has an Ashton celabration opening naxt Thurs. Tha Royal Opera's naw production of Roméo at Juliette, staged by Nicolas Joel and conducted by Charles Mackerras, can be seen tomorrow with cast led by Roberto Alagna and Leontina Vaduva (rapeated Nov 9, 12, 15, 17). Gwyneth Jones stars in Turandot on Sat (071-304 4000)

Coliseum *English National Opera* has final performances tonight and next Wed of Ian Judge's new production of Massenet's Don Quichotte, with cast headed by *Richard Van Allan. Ariadne auf* Naxos is revived tomorrow with Jane Eaglen in the titla rola (till Dec 14). Repertory also includes Die Zauberflöta (071-836 3161)

Sadler's Wells Siobhan Davies Dance Company gives tha world *premiere tomorrow* and Sat of Davies' new choreography entitled The Glass Blew In. Nov 8-19: Northern Ballet Theatre in Christopher Gable's touring production of *Cinderella*, music by Philip Feeney (071-278 8916)

CONCERTS

South Bank Centre Tonight: Alexander Lazarev conducts BBC Symphony Orchestra in works hy Tchaikovsky, Rakhmaninov and Schnittke, with piano soloist Peter Jablonski. Tonight (QEH): Tabea *Zimmermann, Michael Collins* and Imogen Cooper play chamber music. Tomorrow: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in Schumann and Mahler, with piano soloist Cristina Ortiz. Sat: Maurizio Pollini plays Beethoven *piano sonatas. Sun afternoon:* Bernard Haitink conducts Orchestra and Chorus of the Royal Opera House in Ravel, Mozart and Brahms, with piano soloist Murray Perahia. Sun evening: Mariss Jansons conducts London Philharmonic in Debussy, Ravel and Stravinsky, with piano soloist Krystian Zimerman. Sun (QEH): Hans Zender *conducts* Ensemble Modem in his composed interpretation of Schubert's Winterreise. Mon, next Thurs and Sun: Nikolaus Harnoncourt and the *Philharmonia Orchestra continue* their cycle of Beethoven symphonies. Mon (Purcell Room): Nash Ensamble with tenor Robert Tear. Tues: Yuri Temirkanov *conducts* RPO *in Prokofiev,* Schnittke and Rakhmaninov, with piano soloist Dmitri Alexeev. Wed: Alexander Lazarev conducts BBCSO in Avet Terteryan's Seventh Symphony (071-928 8800)

Barbican Tonight: Mstislav Rostropovich conducts London Symphony Orchestre in music inspired by Shakespeare's plays. Tomorrow: Hobart Earle conducts Odessa Philharmonic Orchestra in *Glinka, Rakhmaninov, Skoryk and* Brahms, with piano soloist Arnaldo Cohen. Sat: Neeme Järvi conducts Gothenburg Symphony Orchestra and Tallis Chamber Choir in Sibelius' Tha Tempest. Sun: John Williams guitar recital. Next Tues and Wed: *Seiji Ozawa conducts LSO in world* premiere of new cello concerto by *Rodion Shchedrin, with soloist* Mstislav Rostropovich (071-638 8891)

■ MILAN

Teatro alla Scala Tonight: Ballat of *La Scala in works by* Balanchine, Tudor and Landar. Tomorrow, naxt Tues, Wed, Thurs: Kenneth MacMillan's Manon. Sun: Dmitri Alexeev piano recital. Mon: Jean-Claude Malgoire conducts Vivaldi. Nov 14, 16, 17: Murray Perahia plays Mozart. Nov 21: *Teresa Berganza. Dec 7: opera* season opena with Die Walküre (02-7200 3744)

■ PRAGUE

State Opera Tonight: *new* production of Gottfried von Einem's Kafka opera Der Prozess (repeated Nov 27, Dec 28). Repertory also includes Un ballo in maschera, Nabucco, Aida and Hans Krasa's 1933 opera Verlobung Im Traum (02-2421 5031)

Rudolfinum Tomorrow evening, Fri afternoon: Zdenek Kosler conducts Czech Philharmonic Orchestra in works by Smetana and Richard Strauss (02-2489 3352)

■ ROME

Georges Prêtre, conducts the Orchestra dell'Accademia Nazionale di *Santa Cecilia on Sat, Sun, Mon* and Tues in works by Strauss, Dukas and Roussel. Other visiting artists in the pre-Christmas period include Vladimir Spivakov, Cecilia Gasdia, Christian Thielemann, Gennady Rozhdestvensky and Carlo Maria Giulini. All concerts take place at the Auditorio di Via della Conciliazione (06-6880 1044)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; *FT Business* Tonight 1730, 2230

MONDAY
NBC/Super Channal: FT Reports 1230.

TUESDAY
Euronews: FT *Reports* 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Why pay should be linked to success

BOOK REVIEW

JUST REWARD
– The Truth About Top Executive Pay
By A.P. Williams
Kogan Page, £25

"Executive remuneration is both a highly complex and a highly emotive subject," is Anthony Williams's conclusion to this guide to executive pay. About that there is no argument, and a book that is able to establish both the facts of the matter and a coherent approach deserves a wide circulation.

The studies quoted by the author demonstrate beyond doubt that something has happened to top executive pay over the past 10 years or so that is not accounted for by inflation. Nor can it be more than partly explained by the catch-up needed after a decade in which executives' net pay fell in real terms.

Large institutional investors such as PosTel are often accused – as Williams does in this book – of being critical of executive remuneration. That is a misrepresentation of our position, however. Apart from requesting that reward is related to the success or otherwise of the company, as seen by shareholders, we make no such sweeping statement.

Except in extreme cases, institutions cannot pontificate about the levels of pay that a board votes for its executives. I have enough difficulty in determining the correct pay levels for my own executives, let alone those in industries of which I have only a sketchy knowledge.

Where the investor has a legitimate concern is in ensuring that the interests of the executives and the shareholders are aligned to determining the structures by which pay is determined and the various rewards available.

In the past, many senior executives had substantial shareholdings in the company for which they worked. Shares were held by family members, not by professional investing institutions.

It is the rise of the professional manager that has created the need for new structures. The investing institutions demand a check on the otherwise unfettered power of the executives, who might be tempted to live well at the shareholders' expense.

A remuneration committee, made up of independent non-executive directors, is a body that should give us that confidence. Unfortunately, it does not always do so.

Too often these committees seem to be reactive rather than to think for themselves. They interpret the mantra of remuneration policy – that a package should be able to recruit, retain and motivate good management – as an invitation to follow the consensus on what the marketplace demands.

This is where the consultants, among whom Williams is counted, must take some of the blame. As he says: "There is at least one well-known firm of consultants which is believed to be used by certain companies ... because it recommends the high figures that their chief executives prefer."

Almost every company falls into the trap of wanting to reward its executives at top quartile levels (fund managers offer similar promises to potential clients). Yet three-quarters of companies will not be in the top quartile: it reminds me of the Labour cabinet minister of the 1970s who longed for every worker to be paid more than the average wage.

Linking executive pay to average market levels is simply a game of leapfrog. Each company and each job is different, and a different combination of reward will be needed to recruit the right management.

On what the combination should be, Williams's view is broadly compatible with PosTel's:

- A reasonable base salary, out of which a senior executive can lead a comfortable – but not excessive – existence.
- A short-term bonus, of limited size, dependent on demanding short-term targets on internal forecasts or budgets being met.
- A long-term bonus, perhaps capped only at a high level, dependent on the performance of the company, as perceived by the shareholder, over at least three years.

The hurdle for the latter might be a measure of shareholders' total return, against a suitable peer group. Boots, for example, uses a mixture of retailers and drug companies for comparison.

There is no place here for conventional share options. They were a reasonable device when marginal income tax rates were between 80 per cent and 98 per cent, but have no clear role today.

Many companies now prefer to create trusts in restricted shares, to which executives get access after a period of service. The scheme run by Reuters, the news agency, for example, allocates shares after three years, but the shares cannot be sold for another two years. This is a better way of retaining the services of a successful executive than any contract.

Williams and I do not disagree much on the question of executives' contracts either: the three-year rolling contract is almost impossible to justify. A three-year fixed contract which is succeeded by a one-year "roller" should be enough to attract someone away from a secure job and offer protection against a breakdown in relations at an early stage.

A good executive, asked to leave for reasons other than lack of competence, will not find it difficult to be recruited elsewhere: the market knows the truth. The way to ensure that executives take the risks necessary to build businesses is to offer substantial rewards when their risk-taking has borne fruit in the long-term performance of their company.

The 1994 Hay survey of executive contracts shows a fall in their average term, with three-year contracts no longer in the majority for directors other than chief executives. Perhaps that will convince the 37 per cent of companies which are waiting to "see what others will do, and will follow the market norm" that their time has come to move.

Alastair Ross Goobey

The reviewer is chief executive of PosTel Investment Management

---

ECONOMIC VIEWPOINT

Information dazzle at the Bank

By Samuel Brittan

The danger of trying to look at too many signposts at the same time is that the driver will be dazzled. This seems to have happened with Tuesday's Bank of England Inflation Report.

The beadline news about lower inflation, actual and expected, gave one message to the markets. The warnings of the concluding section on the upward risks to the forecast, which the Bank in the end decided to stress, gave another. So the financial markets did not immediately realise the Bank was trying to signal the need for a bias towards higher interest rates, whether or not implemented this month.

These misunderstandings came from an attempt to be too pragmatic and flood us all with information, which is valuable for the record, but needs to be co-ordinated by a central vision. The source of the confusion is that the upward pressures on both economic activity and prices have increased. But they are being imposed on an economy operating at a lower rate of inflation than anyone had dared to hope. Thus the aircraft is quite likely to be buffeted by upward moving air currents; but it is starting from much nearer the ground than the navigator previously realised.

The Bank's most favoured underlying measure of inflation, known in the trade as RPIY, excludes indirect tax increases as well mortgage interest payments. On this basis inflation has been running at a seasonally adjusted annualised rate of 1.7 per cent over the last three months. There are other underlying indicators which give *still* more favourable results.

The risk of future upward inflation movements comes from the pressure of output on productive capacity. One attempt to measure this pressure is to look at the deviation of output from its trend, starting from the bottom of the recession. The Bank's chart (not reproduced here) shows that, although there is more unused capacity than at the corresponding period in the early 1980s, it is still being rapidly eroded. The Bank estimates that nominal GDP is now rising by 5 per cent per annum, as I suggested on Monday. This is the appropriate rate at which to aim, but not a basis for complacency when subject to upward pressures coming especially from the prices component.

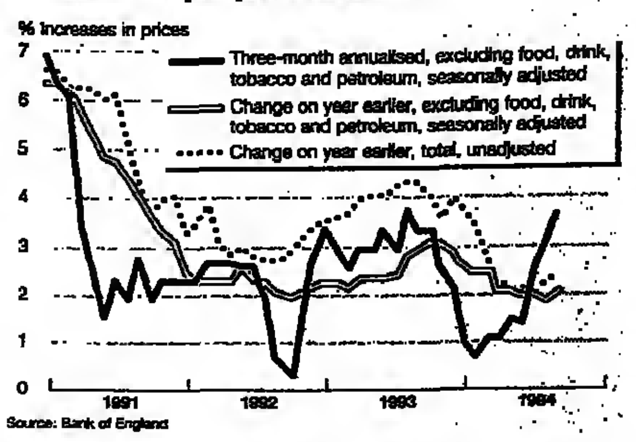
The crucial point is that the pressures on capacity are not confined to the UK. They are being felt worldwide, outside Japan. One main channel of transmission is through rising international commodity prices, which have had the effect of boosting UK "imported inflation" to 6 per cent per annum. This is one reason why the balance of firms in CBI surveys expecting to raise prices has reached 22 per cent, seasonally adjusted, the highest since 1990.

Another factor insufficiently stressed by the Bank is that, under the influence of strengthening world markets and a highly competitive pound, British producers are beginning to summon up the courage to pass on cost increases in factory gate prices. There is no need to gaze at the crystal ball. The chart shows that producer prices, excluding the food group, are *already* rising at an annualised rate of 3.6 per cent.

So far, the upward forces at the producer level have been held at bay by intense competition in UK retail markets. The Bank agonises over how long this countervailing pressure will continue. But even if there has been a structural change in the retail trade, the squeeze on margins is essentially a one-off event which cannot be relied upon to hold down inflation in future.

The Bank, which will have seen the Treasury's pre-Budget forecast, expects the rise in output to slow down. It also emphasises the current near-zero increases in unit wage costs. But the latter are already coming under threat from the tightening labour markets and the tendency of productivity increases to slow down as full capacity operation is approached. Above all the Bank needs to put more emphasis on the interrelation between unexpectedly rapid growth rates in different parts of the world. These are understated by the overseas chapter in the November Bulletin, which does not go beyond the inevitably dated official figures for countries outside the UK.

Producer output price inflation



Source: Bank of England

UK paying way with payments deficit (£bn)

	Average 1982-89	1990	1991	1992	1993	1994 H1
A Current balance	–4.1	–19.0	–8.2	–9.8	–10.3	–2.4
B Identified capital flows (inflows –)	–1.9	–18.2	–8.5	–3.4	–8.3	–1.4
C Revaluations	4.7	–41.4	11.5	15.7	18.0	6.4
of which:						
Exchange rates		–20.8	10.3	45.6	4.0	1.8
Portfolio investment		–19.0	3.2	27.7	0.2	1.0
Direct investment		–14.2	6.4	27.6	3.0	2.7
Other net assets		12.4	0.7	–9.7	0.8	–1.9
Securities price effect		–14.1	9.9	–13.3	12.7	23.7
Other		–6.5	–8.7	–16.5	1.3	–19.2
D Change in identified assets	2.5	–59.5	2.9	12.3	6.6	4.9
E Net asset level	55.0	–4.6	–1.7	10.6	20.3	25.2
F Balancing items (B-A)	2.3	0.8	–0.4	6.5	2.0	1.9

Source: Bank of England

The Inflation Report talks of the risk of inflation "in two years' time" going above its central forecast of 2½ per cent. If this means a few decimal points above, and that were to be the peak, no sensible chancellor need lose sleep. The real risk is of a cumulative upward movement going much higher and extending much longer. Then why not say so directly – instead of in casuistical terms which can be easily demolished by the soft money brigade, as the Bank was by The Times leader yesterday? The fragile nature of the present low-inflation achievement is evident in the obstinate belief of most wage earners that inflation will be stuck at 4 per cent for the foreseeable future.

* * *

International Black Holes

One disadvantage of making the Inflation Report into a separate publication is that it detracts attention from the Bank's Quarterly Bulletin, which appears on the same day and often has fascinating information buried within it.

One example is the table showing how loose is the connection between the current balance of payments, about which some people fret so much, and the net asset position of UK residents. In both 1992 and 1993 the UK had an estimated current payments deficit averaging £10bn per annum. Yet the net overseas assets of the UK rose in value by slightly more than these sums. The same pattern has appeared so far in 1994 although with a much lower deficit. In 1990 on the other hand there was a drop in identified net assets three times as large as the payments deficit.

The main reason for these discrepancies is "revaluations". If there is a rise in Wall Street, British holders of US securities will obviously gain. A more paradoxical effect arises from currency changes. The UK had a very large net gain in 1992 when sterling was devalued following its departure from the ERM. The reason is that assets denominated in foreign currencies then showed a large appreciation when converted into sterling.

The balance sheet benefits from devaluation are counter-intuitive. The only way to get around them is to express net assets in a single external currency such as dollars or as a proportion of GDP. In addition very long averages need to be taken to smoothe out extremely large, erratic swings.

If this is done we see that the UK built up a modest overseas net asset position during the years of large oil surplus, which was subsequently run down, but is still on average slightly positive. The big change in the last decade is in the US, which has apparently moved from positive net overseas assets of nearly $400bn to a negative asset position of $600bn. Many US business economists are highly suspicious of this supposed deterioration because they believe that the estimates undervalue American direct investment abroad.

The Bank of England Bulletin also shows how both the US balance of payments deficit and Japanese surplus are offset for the time being by short-term rather than long-term capital flows. But the writer goes out of his way to stress this change does not necessarily make the imbalances "any less sustainable".

The deeper truth is that entities such as countries do not have either surpluses and deficits or positive or negative net assets. These belong to individuals, corporations and other organisations including governments. The international payments figures are only useful if this health warning is always borne in mind.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Need to assess risks of fuels

From Mr D A Gidlow.

Sir, It is a pity Michael Pettman (Letters, October 29) has misunderstood the main argument in the debate over fuel composition. It is true that the level of benzene in petrol is controlled but this is irrelevant as other aromatics in the fuel undergo change during combustion to form benzene. It is therefore theoretically possible to have a fuel with no benzene but to have significant quantities in the exhaust gases.

Many scientific publications have shown this clear relationship between total aromatic content and benzene emissions. From the data, a recent study has shown that premium unleaded will emit around 20 per cent more benzene than leaded and super-unleaded will emit 30 per cent more benzene, if used in cars not equipped with catalytic converters.

Both the select committee and the Royal Commission on Environmental Protection were unanimous in their call for super-unleaded, with the highest average aromatic content, to be banned. In view of the widespread concern over benzene, it is surely time for the government to undertake a full risk assessment of the various types of fuel and their appropriate uses.

D A Gidlow,
company medical officer,
The Associated Octel Co,
PO Box 17, Oil Sites Road,
Ellesmere Port,
South Wirral L65 4HF

UK is unaware that name of competitive game has changed

From Mr R A Bischof.

Sir, With reference to Robert Barro's Personal View (November 1), as a German businessman who has lived and worked in the UK for more than 25 years, I have to agree with shadow chancellor, Gordon Brown's view on "endogenous growth", rather than chancellor Kenneth Clarke's.

The reasons are simple:

First, "hands-on" government in industrial policy, export support, regional aid, research and development projects, training and skill developments, etc, is happening in all the countries Britain is competing against – at a significant rate.

Second, the very nature of the Anglo-Saxon model, with its focus on short-term profit maximisation, makes it harder for UK companies to compete against their long-term, market share-oriented Asian and Continental European competitors.

In other words, the UK is severely handicapped in two ways by hanging on to the theory of pure non-interventionist capitalism – without having noticed that half the world (the *successful* half) has changed the rules of the game.

Whether this is plain ignorance or an ideological trap is irrelevant. The result has been a steady decline of UK manufacturing industries over 25 years – and there is no improvement in sight.

R A Bischof,
chairman,
Boss Group,
Grovebury Road,
Leighton Buzzard,
Bedfordshire LU7 8SR

Flawed and explosive

From Michael Goldman.

Sir, The insurance industry is rightly being pilloried for mis-selling personal pensions. When is the government going to accept responsibility for setting up the whole rickety framework? The concept of portable pensions was laudable but the practical realisation has been badly flawed.

The Securities and Investments Board should prepare the public and life insurance industry for the explosion of the next time bomb. This will be when the time comes for employees of certain ages in non-pensionable employment who contracted out of state earnings related pensions (Serps) to contract back in. Independent financial advisers who sold them personal pensions have no incentive to provide this advice.

Michael Goldman,
1 Lyndale Close,
Blackheath, London SE3 7RG

Demand for capital behind rate rises

From Mr Barry Wheelock.

Sir, Since January, the US has put up interest rates five times. High yields on fixed interest have become more attractive to institutions, putting pressure on equities. That is why, by October 21, the FT-SE 100 had fallen 12.25 per cent.

These rises are America's pre-emptive strikes to prevent inflation. The markets are still nervous about inflation and the implications of further rises in interest rates.

Yet there is minimal sign of inflation anywhere in the world, apart from a few commodity prices. So is this the real explanation of the markets' current uncertainty? We are beginning to think not.

Five years ago, China began capitalist-type expansionist developments, but had hardly drawn on the world's capital. Nor had Latin America, Hungary, Poland, Czechoslovakia, East Germany. India is now open for business, as well as all the Russian satellites. Given such an increased demand for the world's capital, surely this is the main reason for the recent rises in interest rates, not inflation.

Barry Wheelock,
director,
SWG Investment Services,
2 Deansway,
Worcester WR1 2JD

Director's status crucial to LSO position during inquiry

From Mr Clive Gillinson.

Sir, Richard Fairman, in his review of the London Symphony Orchestra's Gala concert ("Tireless Solti fires up LSO", October 27), raises the issue of the LSO's role during the Hoffmann inquiry in 1993. There was one crucial issue centrally affecting the public position the LSO took – that I am chairman of the Association of British Orchestras (ABO), as well as being managing director of the LSO.

After the Arts Council announced its funding decision for London orchestras in July 1993 and set up the Hoffmann Committee, I offered my resignation as chairman of the ABO if the board felt that my continuing as chairman would create any conflict of interest. The ABO board unanimously asked me to remain.

As the chairman of the ABO is always the manager of an orchestra, there can be times when the chairman's orchestra will be centrally involved in an issue the association has to deal with. It is the policy of the association that, on these occasions, it should be represented solely by its director, which was the case in 1993. Libby MacNamara, the director, ran all the meetings on this subject and publicly represented the ABO position extremely effectively.

Furthermore, during the Hoffmann inquiry, the Musicians' Union called a meeting to consult players from the London orchestras about their views on the very serious implications of the inquiry and to co-ordinate solidarity between the orchestras. By far the greatest number of orchestral players from any of the four London orchestras who attended that meeting were LSO members; this does not indicate an orchestra which was not involved.

Fairman also raises a point about the LSO Millennium Fund. In the difficult economic climate in which the LSO and all the UK orchestras are working, the LSO players have taken no fee rises for the past three years in order to fulfil the orchestra's commitment to the high artistic standards it has set itself. The LSO Millennium Fund has been established to endeavour to try to secure the orchestra's future and those very standards we have worked so hard to achieve.

Clive Gillinson,
managing director,
London Symphony Orchestra,
Barbican Centre,
London EC2Y 8DS

هكذا من الأصل

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Thursday November 3 1994

Banking on regional peace

The Casablanca conference on Middle East economic development has played a valuable role in dismantling psychological barriers. It also came up with a concrete proposal to that end, in agreeing to work towards the creation of a regional development bank. Pan-regional economic institutions - on trade, for example, and water - will be essential if peace is to be consolidated and trust built between ancient enemies. It is questionable, however, whether a bank is the best means to that end.

Putting flesh on the bare bones of the proposed Middle East and North Africa Development Bank, and achieving a funding target of $10bn, will prove challenging. The yet to be selected "group of experts" who will examine policy options for the bank should look closely at the chequered history of others in Asia, Africa and the Americas. One obvious lesson is that regional development banks have fared best when operating in relatively well-managed economies where project lending might have a better than average chance of proving profitable.

The experience of the African Development Bank shows how difficult this can be. At the end of last year, over 39 per cent of its outstanding loans were to just four countries: Morocco, Tunisia, Egypt and Algeria, the last two scarcely models of third world development. The percentage of loans going to the north of the continent is predicted to increase as investment opportunities decrease in sub-Saharan Africa. Significantly, those four countries would expect to be members of, and beneficiaries from, the new bank, an unnecessary duplication which cannot be left unresolved.

Similar problems exist with the potentially overlapping activities of the Arab Fund for Economic and Social Development and the Islamic Development Bank - not to mention the World Bank itself.

The management of any new bank would need simultaneously to make Herculean efforts to loosen the link in the Middle East between politics and economic assistance. Arab countries bordering Israel have long been rewarded by one paymaster or another, according to political stance, not to economic performance. Israel still enjoys substantial and largely uncritical US assistance, while the Palestine Liberation Organisation is already showing all the symptoms of the aid addict in its demands for unfettered cash assistance.

Regional governments will continue to emphasise the threat of Islamic extremism in an effort to ensure that political aid is not reduced. But it has been the very failure of those regimes to manage their economies efficiently which has created the conditions in which extremism flourishes.

It is welcome that Middle Eastern governments are discussing ways in which they can work together. But a bank along the lines suggested is not the best form of co-operation - and certainly should not be the only one.

Postal fudge

The UK government has got itself into an extraordinary tangle over its plans to privatise the Post Office. But the problems are of its own making, and it could cut the Gordian knot if only the Treasury would adopt a less blinkered attitude than it has until now.

The issue is simple: can the Post Office be freed from Treasury control if the government continues to hold a large majority stake in the business? Mr Michael Heseltine, trade and industry secretary, has been telling Tory MPs that the Treasury will not loosen its grip unless a majority stake is in the private sector, because of rules about the compilation of the public accounts and concerns about the ultimate liability for the debts of a privatised Post Office.

It appears the Treasury might, after all, be prepared to countenance a relaxation of control if the state share were limited to 51 per cent. But even that may not be enough for discontented Tory MPs, anxious to avoid confronting electors with a cause as unpopular as selling off the Royal Mail.

Opposition to postal privatisation is motivated mostly by ignorance or by wilful misrepresentation. Concerns over the future of village and high street post offices have been met by government guarantees to retain the Post Office's counters division in the public sector. A postal regulator would be charged with controlling stamp prices and protecting universal collections and deliveries. On the experience of British Telecommunications, a regulator would very likely do a better job of defending consumers than does the government now.

Yet allowing for the political position, an obvious course suggests itself provided the Treasury is prepared to show the necessary flexibility. The Post Office should be constituted as a public limited company. Only a small minority of the share capital - say 10 to 20 per cent - would be sold off, but a statutory bar would be placed on state aid, and the government would give a statutory commitment to exercise no more than the ordinary rights of a majority shareholder to receive dividends and control broad strategy. The Treasury should then let the Post Office operate freely.

Treasury theologians will doubtless shake their heads, but such a policy may be the best way forward in the circumstances. The Post Office is a profitable enterprise, and has been run on business lines for more than a decade. It is not, therefore, a precedent to free the few other remaining public sector enterprises from the Treasury's control.

Of course, the government's commitment not to rescue a failing Post Office is only as good as its statutory word. But equally, the state can use - and in the past has used - its power to rescue failing private companies, so the same argument could apply to any strategic industry. In practical terms, granting the Post Office freedom to develop its national and international business is less likely to lead to reliance on the taxpayer than is a continuation of the status quo.

Swan song

Today an era ends on Tyneside, in the UK's north-east, when the HMS Richmond, the last of 2,700 ships built by the 134-year-old Swan Hunter shipyard, leaves the river. Next week it will be handed over to the Royal Navy. Its departure from the Wallsend yard signals the company's closure and the probable end of shipbuilding on the Tyne.

Swans has been in receivership since May 1993, and the closure of the north-east's last shipbuilding yard is hardly a surprise. But it is nonetheless of great symbolic importance: it underlines the region's decline over a century as one of the world's leading centres of heavy industry.

Of more practical consequence, the closure will cost jobs in an area with the highest regional unemployment rate on the British mainland. Swan Hunter employed 2,400 people when it went into receivership; it now has only 400 left, most of whom will go within days, although sales of subsidiaries have preserved some jobs.

Those losing their livelihoods might well ask why the government has seen fit to use public funds to attract inward investment to the region, such as the electronics factory opened by Samsung, but would not prop up Swan Hunter. The sums should be kept in perspective; while the region is economically depressed, it will continue to receive large transfers from central government in the form of unemployment benefits, which dwarf the industrial subsidies in question.

That point made, the government's strategy in backing Samsung not Swans is right. The Samsung project, which could bring 3,000 jobs to the region, has received £90m out of the £450m total cost of the project in government and regional subsidies. However, electronics is a growth industry, and the record of inward investment in providing training, jobs and growth is good, particularly in the north-east, which prides itself on being the magnet within the UK for far eastern manufacturing investment.

No such case could be made for Swan Hunter. It has been increasingly dependent on military work, a dwindling market. Moreover, the cost-plus basis of many contracts has encouraged a high-quality but high-cost culture ill-suited to the demands of world competition. While shipbuilding is clearly not dying worldwide, civil orders are pursued ferociously by South Korea and Japan; indeed the OECD has warned that planned Korean expansion could lead to overcapacity and international price-cutting wars. It is far from clear that subsidising Swan Hunter would have enabled it to compete. France, which has subsidised its industry heavily and has threatened to veto limits on such aids agreed in the OECD this summer, has nonetheless seen its industry decline.

The north-east's record in attracting inward investment is admirable. That is of more future value than propping up dying symbols of its past success.

Unlikely champion of free trade

Victor Mallet says Suharto's protectionist instincts make Indonesia an improbable venue for the Apec summit

At first glance, Indonesia is an improbable place to celebrate the virtues of free trade. The economy has for years been one of the most protectionist in south-east Asia.

The presidential palace in Bogor, near Jakarta, will nevertheless be the venue for this month's Asia Pacific Economic Co-operation (Apec) summit, to be attended by US President Bill Clinton and the leaders of 16 other Pacific nations. If free traders have their way, the November 15 summit will set a target date for free trade across the Pacific of 2020, or even 2010.

Mr Suharto sees the summit as the clearest sign yet of Indonesia's growing stature on the world stage, and is determined to make it a success. He has surprised even his own cabinet ministers with vigorous endorsements of free trade in the run-up to the conference.

There has been a progressive liberalisation of Indonesia's trade and investment regimes in recent years. Average tariffs, for example, have fallen from 37 per cent to 20 per cent in the last decade. But the economy remains protected with visible and invisible barriers and is ill-prepared to compete in a free market.

Mr Suharto's sudden enthusiasm for free trade is typical of the enigmatic army general, who has ruled with his "New Order" government since 1966. The president, who calls himself the "Father of Development", has presided over average annual economic growth of 6 per cent for the last quarter of a century. Foreign investment in the world's fourth most populous nation, with 187m people, has been encouraged. Textiles, shoes and electronic goods have joined timber, oil and gas as important exports industries.

The west has started to pay attention, with the US commerce department last year proclaiming Indonesia a "big emerging market". Tempted by Indonesian proposals to spend the equivalent of $50bn on everything from power stations to telephones under its new five-year plan, the US has chosen Jakarta as the first Asian site for a "US Commercial Centre", to help US investors and exporters.

In an Independence Day speech in August, Mr Suharto said Indonesia wanted to quadruple real per capita income (at present about $600 a year) in the next 25 years, through industrial development. "We shall continue deregulation and de-bureaucratisation," he said. "The goal is to prepare for a highly competitive economy that can survive in the increasingly unified and competitive global economy."

However, he added a puzzling afterthought: "Deregulation and de-bureaucratisation certainly do not mean setting up a liberal economic system that allows free competition."

This inability to reconcile his professed belief in free enterprise with his protectionist instincts, is one of several unresolved dilemmas in economics and politics that confront Indonesia as the president grows older and the economy larger.

Another is the domination of domestic business by conglomerates with ties of blood or friendship to the Suharto family. The president has declined to curb the commercial ambitions of his children or his small coterie of ethnic Chinese business associates. Between them, they use their position to acquire lucrative stakes in almost every big investment project.

Typical is the new $1.7bn Chandra Asri petrochemicals plant at Anyar, on the west coast of Java. The partners in the project include Mr Bambang Trihatmodjo, one of Mr Suharto's sons, and Mr Prajogo Pangestu, one of his friends. The government has offered a 40 per cent tariff on imports to support the venture, to the fury of some businessmen who fear the higher costs will damage their competitiveness.

Another example of the arbitrary way Indonesia is run came to light in July, when it emerged that Mr Suharto had decreed the transfer of Rp400bn (£113m) from a reforestation fund to IPTN, a state aircraft manufacturing venture managed by Mr B.J. Habibie, the minister of research and technology and another friend of the president.

Environmentalists, including a prominent group called Walhi (Indonesian Forum for the Environment), have taken the president to court, demanding the reversal of the decree and asking for Mr Suharto to be fined Rp5m. "A lot of people warn us that, after Apec, Walhi will be harassed because of this action," said Ms Emmy Hafild of Walhi.

The acceptance by the court of the case for a hearing is attributed to the official policy of keterbukaan or openness in recent years. But after a brief period of vigorous debate in the media over politics and economics, openness is already in retreat.

In June, the government banned three leading publications, apparently because they mentioned the sensitive issue of the succession to Mr Suharto - he has declined to name a successor or say if he will step down - and reported on a dispute between the armed forces and Mr Habibie over his decision to buy the 39 warships of the old East German navy.

Both Mr Suharto and the armed forces say strong government is needed to control ethnic and religious conflicts and prevent the disintegration of Indonesia - a scattered archipelago extending nearly 5,000km from Sumatra in the west to Irian Jaya in the east. They do not believe a more open political system is necessary to oversee the next stage of Indonesia's industrial revolution.

The army's leading role in politics was tolerated and even welcomed by Indonesians after the massacres surrounding the overthrow of President Sukarno in 1966. Army chiefs are now unwilling to accept a diminished role in an increasingly sophisticated, urbanised society.

General H.B.L. Mantiri, chief of general staff, recently said the army saw itself as the political "shepherd" of Indonesians, and insisted it would never relinquish the political and social role it has added to its military responsibilities. "Our dual function will last for ever and ever," he declared. "It is already stated in the constitution."

However, the argument that authoritarianism is necessary for stability is not as compelling as it was in the 1960s. Strikes by workers have become more frequent, and hardly a week passes without demonstrations by slum-dwellers or rice farmers against well-connected property developers who have gained control of their land.

The authorities have sought to crush the independent trade union that sprang up in the past few years to represent workers in Indonesia's growing number of factories. Mr Muchtar Pakpahan, leader of the Indonesian Welfare Labour Union, is now on trial, accused of inciting workers to riot in Sumatra in April. Even before the trial is over, General Mantiri has said Mr Pakpahan will get six years in jail because he organised in the factories "and we cannot tolerate such things, of course". On Monday a fellow leader of the union, Amosi Telaumbanua, was sentenced to 15 months in jail for inciting worker riots.

The urban middle-class professionals who want democracy are few and ineffective, but they grow more numerous every year as Indonesia becomes wealthier. They are no more convinced than labourers of the need for dissenting views to be silenced.

As the Apec summit approaches, local human rights campaigners, journalists and environmentalists say harassment by police and military intelligence officers has increased, presumably to discourage demonstrations.

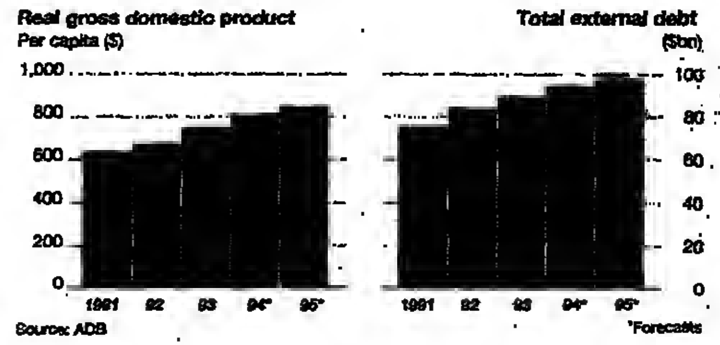
Thousands of extra troops and police deployed in the capital for "Operation Cleansing" have rounded up prostitutes and beggars before the dignitaries arrive.

Brushing aside criticism of its record on human rights and the environment - in recent weeks vast fires in deforested areas of Indonesian Borneo and Sumatra have shrouded Singapore and Malaysia in smoke - the government in Jakarta portrays the Apec summit as an unambiguous sign that the country has come of age.

There is a growing number of Indonesians, however, who believe that the authoritarian government and corrupt bureaucracy are out of touch with the views of ordinary Indonesians, and may prove incapable of taking the right decisions to ensure continued political stability and economic growth. "I might have bought the argument of stability and authoritarianism in 1971 or 1972, but after all these years I don't buy it any more," said Ms Hafild of Walhi.

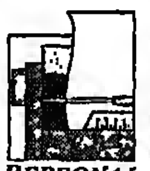
Indonesia: a big emerging market

	Exports ($bn)	Imports ($bn)	Current account balance ($bn)	(% of GDP)
1991	29.4	24.6	-4.1	-3.5
1992	32.5	26.5	-3.7	-2.8
1993	35.8	29.1	-3.0	-2.1
1994*	39.3	32.3	-2.9	-1.9
1995*	43.3	35.9	-2.9	-1.8



Source: ADB *Forecasts

Europe: the spectre of budget deficits



PERSONAL VIEW

Over the last few months the majority of economic forecasters hava been forced to raise their predictions for Europe's growth in 1994. It would seem natural to assume that there is a common factor behind this "surprising" growth, but this appears not to be the case.

The German economic recovery has been brought about by a combination of buoyant corporate sector spending and a fall in the personal sector's savings rate. Both factors can be attributed to an accumulation of money balances in each sector, which has led both individuals and companies to spend more.

It is no coincidence that the recovery has followed a period of above-trend monetary growth. Most of the hallmarks of monetary expansion are present: the current account balance has deteriorated as the national savings rate has fallen, equity prices have risen, and the yield curve has steepened.

This German monetary expansion is partly due to the Bundesbank'a action in adding liquidity to the economy when defending the exchange rate mechanism last year. It is also the product of rapid growth in domestic credit, mainly in lending to the public sector to fund Germany's budget deficit.

Over the last three years, bank lending to the public sector has accounted for between a third and half of the growth in broad money. The banking system has effectively been creating money to finance the budget deficit and this has been spent in the domestic economy, stimulating recovery.

Outside Germany, budget deficits have also played a part in economic recovery. According to OECD figures, the French budget deficit grew by the equivalent of 2 per cent of gross domestic product last year. This year, it is expected that aggregate GDP will rise by a similar amount.

Similarly, Sweden raised its budget deficit by more than 5 per cent of GDP last year but seems likely to generate economic growth of only 3 per cent this year. While these countries have seen economic recovery, the price appears to have been large budget deficit increases.

Over the past decade, many have become blasé about budget deficits. In this world of freely flowing capital, few would claim that any given budget deficit could not be financed. Unfortunately, when it requires real interest rates of more than 5 per cent, the stock of debt is compounding at twice the rate the economies themselves are capable of growing.

Public indebtedness is growing so fast one wonders where income will come from to service it

It seems surprising that this arithmetic attracts such scant attention given its implications for tax rates, inflation and interest rates in the future. Public indebtedness is now growing so fast that one is left wondering where the income will eventually come from to service it.

Furthermore, if one were to add the problem of Europe's frequently unfunded public pensions, the debt arithmetic becomes quite impossible. Present fiscal trends leave many European states effectively no hope of fulfilling their public pension commitments in the future.

Perhaps more worrying for this generation of Europeans is the effect current budget deficits are having on Europe's economic structure.

Many countries in the exchange rate mechanism cannot allow their budget deficits to be funded by the banking system as in Germany. Such de facto easing of monetary conditions would clearly be incompatible with maintaining their exchange rates in the ERM.

Instead, the budget deficits of France and other countries have to be funded by borrowing from the other sectors of the economy, especially since foreigners have started to sell European bonds in significant quantities.

Given the high real interest rates on offer, it is not surprising that French investors should find current bond rates attractive. But there is evidence that French companies are foregoing capital spending and employment creation to invest in bonds.

This surely cannot be a sustainable state of affairs. High real interest rates and low domestic rates of return on private investment are allowing the budget deficits to crowd out more productive forms of fund raising. If this continues, Europe could undergo a further loss of competitiveness and a consequent decline in its long-run growth prospects.

Europe must address its budget deficits quickly. In Germany, the persistently high monetary growth rate will eventually force the Bundesbank to raise interest rates to cool the economy.

In other EU countries, large budget deficits are not only generating an unfortunate legacy for our heirs, they are distorting the economies and will make Europe less able to compete internationally.

Andrew Hunt

The author is chief economist, Thornton Investment Management.

OBSERVER

What am I bid?

■ Bob Bauman, former chief executive of SmithKline Beecham, may have been known as "Mr Restructuring" in the drugs industry, but British Aerospace shareholders were left wondering yesterday whether he needed some restructuring himself, after getting rather mixed-up about BAe's bid for submarine-maker VSEL.

Urging shareholders to back the group's bid for the Barrow-based shipbuilder, BAe's new two-day-a-week chairman said the offer was worth "$14 a share".

"You mean pounds, not dollars," shouted one investor from the back of the ballroom. Hardly had he corrected himself, when another shareholder put him right again. "GEC has bid £14 a share, not BAe."

Apologising, the mastermind of the Beecham and SmithKline Beckman merger quipped "this was my first time at this sort of thing". But not the last, eh?

Spare that tree

■ When will the UK Forestry Commission get a chairman? Two months after the retirement of Sir Raymond Johnstone, 65, on the expiry of his five-year term, it's still lacking a leader.

Two of the three forestry ministers - Ian Lang, Scottish secretary, and William Waldegrave, agriculture minister - favour Sir Peter Hutchison to take over. Sir Peter, 59, is a Scottish baronet who chairs a family insurance broker in Glasgow and is vice-chairman of British Waterways.

But the third minister - John Redwood, Welsh secretary - fears Hutchison might favour green as opposed to commercial forestry as much as Johnstone did. Redwood might be right: Hutchison is a former chairman of the trustees of the Royal Botanic Gardens in Edinburgh and gives talks on his plant-hunting expeditions in Asia.

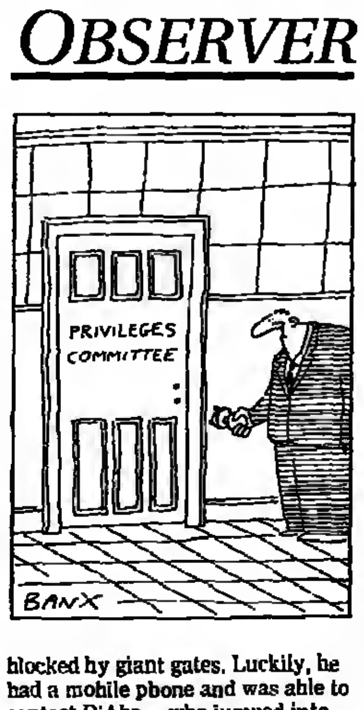
Redwood was thwarted earlier this year in his desire to have the Commission privatised. Has he lost another fight?

Dialling Dahling

■ Hard to get the measure of Jennifer D'Abo, whose resignation from the Northern Ireland Industrial Development Board has caused such a stir.

Some regard her as a female Bertie Wooster who wears heart-shaped glasses and calls everybody "Dahling". Others regard this as a disguise for an extremely astute businesswoman who is quick to spot money-making opportunities but tends to flit around, the sort who sparks larger-than-life stories.

One of Observer's favourites involves a visitor to her house on the Duke of Marlborough's Blenheim estate, who found his way blocked by giant gates. Luckily, he had a mobile phone and was able to contact D'Abo - who jumped into Miss Mink, as she called her black Mercedes, and raced down the two-mile long drive to let in her dinner guest.



Open sesame

■ The clamour for open government has even reached the hallowed portals of the Bank of England, which faced criticism yesterday from City analysts complaining about "misleading signals" associated with Wednesday's inflation report.

Analysts felt the report suggested there would be no rise in rates; newspapers yesterday speculated a rise was due in the coming months.

One economist, quoted by Reuters, took a firm line. The Bank's tactics, he thundered, were "hardly an open and transparent way of conveying monetary policy messages".

Who was this seeker of truth aod light? Who knows? The economist spoke on condition of anonymity.

Minihell

■ The old world meets the new. Minitel, the ubiquitous French hi-tech phone computer information system, now has a handy new service. By dialling "3615 en grève", subscribers can learn of the postal, transport and other strikes currently under way. Is that a blessing or an addilional curse?

Coming home

■ One of Shaftesbury Avenua's leading theatres - the Globe - has become the Gielgud, in honour of Sir John Gielgud's 90th birthday. Sir John was in commanding form as he accepted the honour yesterday: "In recent years I've gone down Shaftesbury Avenue many times and not recognised any of the names on the theatres. Now at least I recognise one."

He was particularly happy because he has been involved in 15 productions thare - including Hamlet 60 years ago; and his sister worked in its box office 50 years ago.

Janet Holmes-à-Court, whose Stoll Moss chain includes the Gielgud, was happy to spend £25,000 to change the theatre's sign and place Sir John's photograph, by Lord Snowdon, in the foyer.

Few actors names grace a London theatre. There is the Garrick; the Olivier, at the National; and, if you include actor-managers, the Wyndham. Sir John would like one more - for his old sparring partner Sir Ralph Richardson.

Briefs encounter

■ What do you call your underwear? In South Korea, the J. Enterprise company has incurred the wrath of US lawyers for marketing a range of underwear called James Dean.

Dean died at 24 in a 1955 car crash. As elsewhere, he is a popular icon in Seoul, where cafés and restaurants are named after him.

But in what is turning into a rebel without a corset clash, the US-based Curtis Management Group, representing the family and estate of the deceased film star, says J. Enterprise Ltd - which is likely to sell $31.3m of the undergarments this year - has violated trademark laws.

Expensive business, trademark actions. Far cheaper surely to turn the other cheek.

FINANCIAL TIMES
Thursday November 3 1994

Influence of special interest groups to be cut

Japan completes drive for political reforms

By William Dawkins in Tokyo

The final stage in Japan's dramatic five-year campaign to purge political corruption and weaken party factions' grip on power was quietly cleared in the lower house of parliament yesterday.

It was an unobtrusive climax to the most drastic changes to Japan's political system since the present constitution came into effect in 1947. The reforms have cost the lives of four governments and have introduced open confrontation into a previously cosy political consensus.

The house endorsed, with most parties' assent, a bill to redraw the boundaries of Japan's multi-seat constituencies, to create a mixed system of UK-style single-seat districts and continental European-style proportional representation.

After approval by the upper house about the middle of this month – which will be all but automatic – the new system will take effect in mid-December, after a statutory one-month delay for the electorate to absorb the changes.

That completes a complex series of political reforms, designed to maka governments more responsive to the electorate's aspirations and less dependent on the special-interest groups that support the so-called "iron triangle" of business, politics and bureaucracy.

The system will force politicians to compete harder for seats and so end the comfortable careers of dozens of oldar members of parliament, who fought reform because their former constituencies would cease to exist.

Reform was mooted to counter public disgust at the political class, after the Recruit shares-for-favours scandal in the late 1980s.

The main part of the reform passed parliament in March. It consists of four bills to establish the new electoral system, ban business donations to individual politicians, establish a Y30.9bn (£253m) annual state subsidy for political parties to compensate for the curb on funding, and set new campaign rules.

Objections by the conservative Liberal Democratic party, then in opposition, forced the government to water down the more radical original version.

After last March's agreement on the bulk of the reforms, it remained for an independent panel to draw up the new constituencies, accepted by the lower house yesterday. Two other final reform bills were also agreed: to invalidate the election victories of candidates jailed for buying votes; and to set legal qualifications to become a political party.

The LDP's return to power four months ago gave it the scope to ensure that its own softer version of political reform got through parliament. While the reforms had a smooth passage yesterday, the outcome poses a subtle rather than radical threat to the political-faction system at the foundation of old-style Japanese politics.

Some political analysts argue that the tougher competition needed to win parliamentary seats might, perversely, strengthen political factions' power.

Fresh storm over Hualon project

By Guy de Jonquières in London

The government's £61m ($99.4m) grant to Hualon, a Taiwanese group, to build a Belfast textile plant was plunged into renewed controversy yesterday when a director of Northern Ireland's Industrial Development Board resigned in protest at the project.

Mrs Jennifer d'Abo said she bad quit because tbe board, whicb is responsible for tbe $255m project, had failed to give ber satisfactory information about the legal and financial arrangements for the deal.

She said the board had refused to answer questions about a recent stock market scandal involving subsidiaries and senior executives of Hualon, and had refused ber request for a special board meeting to reconsider the deal.

"I am not happy to agree to going forward with a very large project wben tbere bave heen accusations of scandal, sbare transactions [and] land transactions . . . to which I have not been given satisfactory answers," she said.

Sbe said there sbould be a proper inquiry into the project, the largest manufacturing investment in Northern Ireland since the state-backed De Lorean car venture, which collapsed with heavy losses in the late 1970s.

Tbe Commons Northern Ireland committee is already investigating the proposed plant. Britisb textiles manufacturers are considering cballenging in the European Court the European Commission's approval this year of the £61m grant.

Mrs d'Abo is chairman of the Moyses Stevens florists group and headed Rymans, the stationery chain in the 1980s. She said she and other IDB directors had repeatedly raised questions about the Hualon project since it was first submitted to them more than two years ago.

She said she had received contradictory and unclear answers from IDB executives abont which part of the Hualon group the board was negotiating with, and about the status of the financial guarantees which Hualon had agreed to provide on the project.

The IDB said last night that it had declined Mrs d'Abo's request for a special board meeting last month because it wanted first to talk with Hualon executives.

It said it had made "very considerable efforts" to answer her questions. The last board meeting had discussed her objections and reviewed recent developments relating to the project, to which no grant had yet been paid.

The IDB said there was no justification for suspending the project. If no legal challenge were mounted by tbe end of this montb to tbe Commission's approval of aid, it expected the company to go ahead with the plant on schedule.

Picture, Page 8

Belgium ready to ease rules on pension fund investment

By Emma Tucker and Norma Cohen

The Belgian government is preparing to relax investment rules for pension schemes, dropping the requirement that at least 15 per cent of assets must be invested in government bonds.

The proposals are part of a wider set of reforms of Belgian pension law. They will also address issues such as the way liabilities are calculated.

The move comes as other European governments debate how much freedom should be allowed to pension fund managers responsible for investing assets. A proposed EU directive intended to bar member states from unduly restricting investments in equities or in non-domestic securities was withdrawn because no agreement could be reached.

Belgium, which has roughly BFr250bn ($8.05bn) in occupational scheme assets, already has few restrictions on how assets can be invested.

The Belgian association of pension funds expects the 15 per cent rule to be dropped over the next few months, with legislation drawn up before the end of the year. It has campaigned for the move.

A representative said: "On pensions we are closer to the UK position than the French or the Italian."

Mr Paul de Smet, partner at Conac, consulting actuaries, said the new rule would have little immediate effect on bond holdings.

According to the Belgian association, 34.8 per cent of a typical Belgian fund was invested in Belgian government bonds at the end of last year. The next biggest component was foreign equities (21.7 per cent), followed by Belgian equities (16.5 per cent).

Foreign bonds accounted for only 12.6 per cent of investments, while cash accounted for 7.6 per cent of the average portfolio.

The shares, however, change according to company. Funds of the big multinationals based in Belgium – for example IBM and Unilever – diversify more, with a tendency to invest more in foreign equities.

However, while providing some liberalisation on investments, the proposed legislation will make it much harder for employers to borrow the surplus assets of their pension scheme themselves. The rules that set investment restrictions cover only the assets specifically needed to calculate liabilities, Mr de Smet said.

There are no restrictions on how the surplus assets are invested, and some companies have lent the funds back to themselves.

Politicians seek network votes

Continued from Page 1

her campaign staff say. To reach voters who do not have home computers, Ms Brown this week set up multimedia computer kiosks in San Francisco, Sacramento and Los Angeles. Each kiosk contains an Apple Macintosh personal computer with a CD-Rom unit that contains a wide range of information about the candidate including recordings of some of her campaign speeches.

Claiming to break new ground in the use of technology in a political campaign, Ms Brown said that the technology "combines two elements that have contributed to California's economy and creativity – Hollywood and the Silicon Valley".

When it comes to election day, the Internet will also be the place for instant news on election returns. The full text of the bulky California ballot pamphlet is online via http://www.election.digital.com and the campaign cybertrail is spreading in other states.

To find out where California's gubernatorial candidates stand on issues in the election, send E-mail to petewilson@delphi.com or katbrown@netcom.com and wait to see if the computer promises are kept.

THE LEX COLUMN

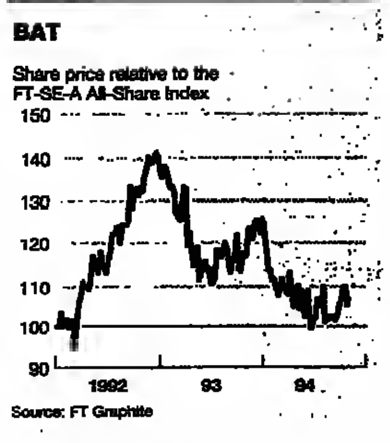
Discounters at bay

J Sainshury has seen off the immediate threat from the discount supermarkets. The victory has been achieved at the price of a painful reduction in gross margins, the group conceded yesterday. But fears of a profits implosion, which have lingered on since the traumatic fall in Sainsbury's share price early this year, now look overdone. The discounters themselves are not in a fit state to launch a fresb assault on prices, as Kwik Save's figures are expected to demonstrate today. Against this background, gross margins at Sainsbury should stabilise from here on.

The group's rigour in holding down costs in its core UK food retailing business was impressive. Equally so, from a strategic as well as a financial point of view, was the contribution made by Sainsbury's other retailing activities. Operating profits here grew hy more than a quarter, lifting the total growth in group operating profits to 10 per cent – well ahead of the 7.7 per cent increase achieved by Sainsbury's UK supermarkets alone. Tbe group's diversification strategy, whicb took a furtber stride forward last month with the acquisition of a 50 per cent voting stake in Giant Food of the US, has proved successful in insulating profits from the full ravages of competition in UK food retailing.

One gripe is that the dividend grew hy only 6.7 per cent, in line with pre-tax profits whicb were beld back by a high interest charge. Sainsbury sbould consider moving to a progressive dividend policy. So robust is its cash flow that it could clearly afford to do so. But Sainsbury is probably busbanding its casb for further diversification in the US.

FT-SE Index: 3081.3 (-15.0)



Source: FT Graphite

BAT Industries

BAT is up to its eyeballs in regulators. In UK financial services, it faces a new disclosure regime and the costs of untangling the personal pensions fiasco. In US financial services, the Californian insurance reform movement has come back to haunt it. In tobacco, wbere tbe US anti-smoking lobby is getting ever more vociferous, BAT is now fighting to save its $1hn hid for American Tobacco from an anti-trust challenge. A normal company might start to feel persecuted. But suppliers of cigarettes and life assurance do not expect to be loved.

Not that the regulatory pressure is all bad. While the personal pensions disaster has done little to dent BAT's new life and investment husiness, it can only hasten consolidation in the industry and BAT bas the money to spend on fire sales. On the cigarette side, the blocking of tbe attractive American Tobacco deal would be a blow. But at least the threat of an excise duty hike has receded for tha moment.

Nevertheless, the thickness of the regulatory jungle is tending to obscure BAT's bealthy trading picture. The shares slipped yesterday despite the resilient financial services profits and strong recovery from the US cigarette husiness. At this rate, BAT will be more than justified in matching the 6 per cent interim dividend increase at the final stage, so pushing the yield to 6.3 per cent. That looks cheap even hy the standards of other tobacco stocks. Whether it takes full account of the regulatory and legal risks is another qnestion.

Snapple

Snapple's headlong rusb into the arms of Quaker Oats is logical. Sales growth at the new-age fruit juice company remains heady, but the group is facing stiff competition from the likes of Coca-Cola, Pepsi and Nestlé. Margins are being squeezed and the company has been forced to raise marketing expenditure. Snapple needs to internationalise but, on its own, has neither tbe necessary financial nor management resources to do so quickly. Quaker should provide the extra resources as well as access to its distribution system.

By acquiring Snapple, Quaker is staking its claim to become a significant competitor in the soft-drink industry. The company already markets Gatorade, the top-selling US sports drink which it is beginning to push into Europe. But Quaker is paying a steep price for access to the new-age soft drinks sector, the fastest-growing part of the beverage market. The $14-a-sbare offer may be well below Snapple's peak of $31 in February, but it still represents a multiple of 38 times expected 1994 earnings. The deal will be dilutive for at least two years.

Quaker plans to pay for the deal at least in part, hy selling its European pet food business, the region's second largest. Both Nestlé and Dalgety, the next biggest competitors, would probably want it. But the Swiss group must be favourite. Dalgety is already distracted, trying to buy Allied Domecq's food ingredients business. Besides, Nestlé has the deeper pockets.

Yen

The other side to the dollar's weakness is the continuing strength of the yen. Neither country is happy with tha situation. While the US Federal Reserve waded into currency markets yesterday for the first time in many months, the Bank of Japan's intervention in currency markets has become increasingly frenetic. But buying dollars and selling yen alone will achieve little.

Changes in monetary policy are needed in both countries. The Fed's approach to raising interest rates has been dilatory. Meanwhile, the Bank of Japan's governor, Mr Yasushi Mieno, who retires next month, has been giving the economy a valedictory twist of the monetary screw. Short-term market rates have been nudged upwards in the last few months and long-term rates have joined the global surge.

The monetary stance is inappropriate. Japan's economy remains mired in the foothills of a painfully slow recovery. Despite the still low nominal interest rates, prices are falling fast – consumer prices dropped by 1.6 per cent in the three months to August. Real interest rates have risen by more than 1.5 percentage points in the last year. The risk of a deflationary spiral remains real, magnified by the threat from a still-precarious financial system. The trade surplus may at last have started to decline, but that alone will not prevent the yen rising yet higher. On current policy, Japanese investors see little reason to reverse the repatriation of their investments that has been at the heart of the currency's strength for so long.

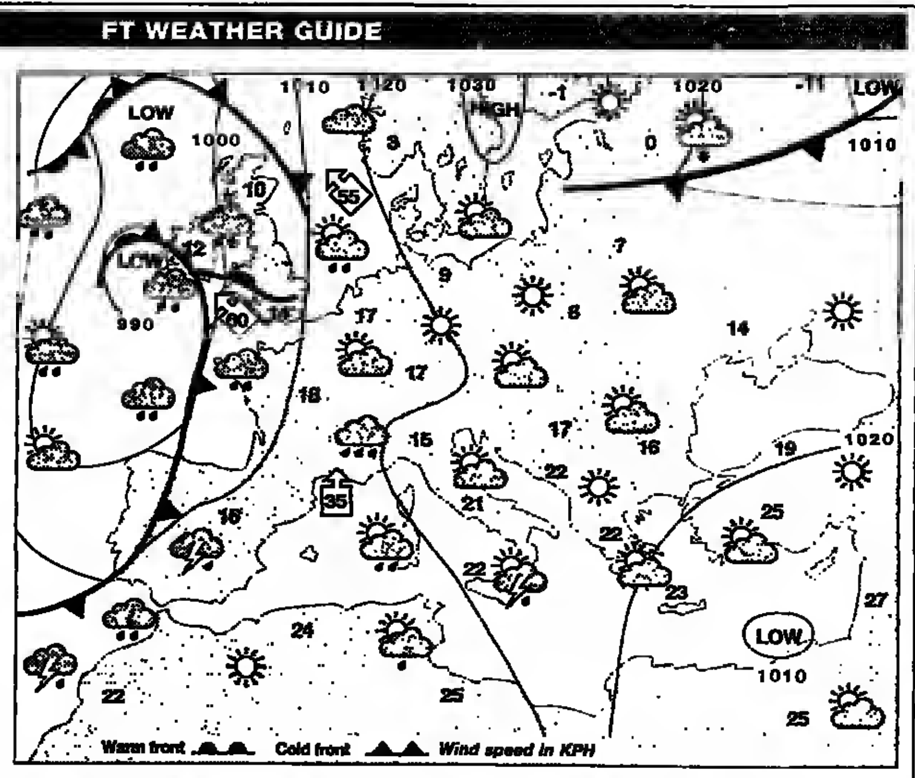
FT WEATHER GUIDE

Europe today

Most of Europe will be sunny and dry as high pressure over the Gulf of Bothnia extends to central and southern Europe. A low west of Ireland will draw warm air northwards, bringing rain to England and Spain. Temperatures will rise by 5C-7C over much of France. Moist air from the western Mediterranean will cause heavy rain with a risk of flooding in south-east France and the southern slopes of the Alps. Scandinavia and much of eastern Europe will have a lot of sun but will be rather cool. Wintry conditions will expand over north-east and central Russia where below-freezing daytime temperatures will reach as far south as Moscow.

Five-day forecast

Western Europe will have seasonable temperatures but unsettled conditions will expand from west to east. Southern France and Italy will have a lot of rain. North-east Europe will become cooler and there will be heavy showers near the Black Sea over the weekend.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

		Maximum Celsius
Abu Dhabi	sun	32
Accra	fair	30
Algiers	fair	24
Amsterdam	fair	15
Athens	sun	22
Atlanta	sun	25
B. Aires	sun	28
B.ham	cloudy	13
Bangkok	fair	33
Barcelona	cloudy	19
Beijing	sun	17
Belfast	rain	12
Belgrade	sun	17
Berlin	sun	11
Bermuda	cloudy	27
Bogota	shower	22
Bombay	fair	34
Brussels	fair	18
Budapest	fair	13
C.hagen	sun	7
Cairo	thund	25
Cape Town	fair	22
Caracas	thund	32
Cardiff	shower	14
Casablanca	fair	23
Chicago	cloudy	15
Cologne	fair	18
Dakar	sun	29
Dallas	fair	26
Delhi	sun	30
Dubai	sun	31
Dublin	rain	13
Dubrovnik	sun	22
Edinburgh	shower	11
Faro	thund	20
Frankfurt	fair	16
Geneva	fair	16
Gibraltar	shower	20
Glasgow	shower	11
Hamburg	fair	12
Helsinki	fair	-1
Hong Kong	fair	27
Honolulu	cloudy	31
Istanbul	fair	19
Jakarta	cloudy	32
Jersey	cloudy	17
Karachi	sun	36
Kuwait	fair	32
L. Angeles	sun	18
Las Palmas	cloudy	24
Lima	cloudy	21
Lisbon	rain	17
London	rain	14
Lux.bourg	fair	16
Lyon	shower	19
Madeira	cloudy	23
Madrid	rain	18
Majorca	fair	21
Malta	fair	23
Manchester	cloudy	13
Manila	cloudy	31
Melbourne	shower	17
Mexico City	fair	22
Miami	fair	28
Milan	shower	14
Montreal	fair	12
Moscow	snow	0
Munich	sun	14
Nairobi	shower	26
Naples	fair	22
Nassau	shower	30
New York	sun	18
Nice	shower	18
Nicosia	fair	26
Oslo	fair	3
Paris	fair	18
Perth	fair	25
Prague	sun	11
Rangoon	sun	34
Reykjavik	sleet	4
Rio	shower	32
Rome	cloudy	21
S. Frsco	sun	16
Seoul	sun	14
Singapore	shower	32
Stockholm	fair	4
Strasbourg	fair	17
Sydney	shower	30
Tangier	thund	22
Tel Aviv	fair	29
Tokyo	cloudy	19
Toronto	fair	18
Vancouver	shower	5
Venice	fair	15
Vienna	fair	13
Warsaw	sun	8
Washington	sun	21
Wellington	cloudy	14
Winnipeg	snow	-1
Zurich	fair	15

هكذا من الأصل

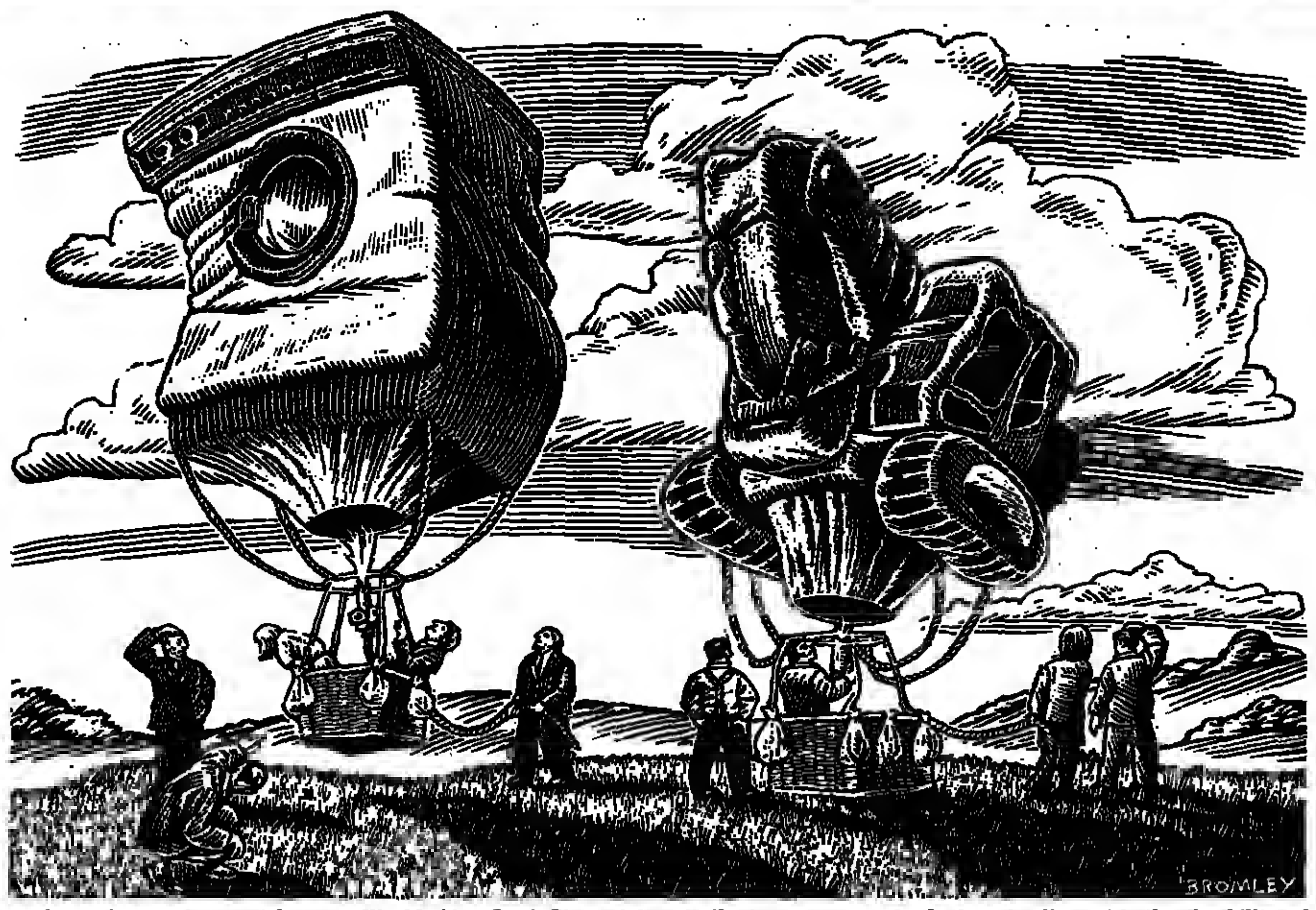
FINANCIAL TIMES SURVEY

UK CONSUMER CREDIT AND ASSET FINANCE

Thursday November 3 1994

While future prospects for the industry look good, the pace of recovery in consumer credit and asset finance is still relatively slow. **Jim Kelly** reports

Reluctant spenders put brake on growth



Latest figures from the UK credit and asset finance sectors, traditional barometers of the economic climate, suggest consumers and business people are still reluctant to accept that the recession is really over.

In August this year members of the Finance and Leasing Association (FLA) were owed £38.2bn for asset finance while in the year to June they had provided £15bn of consumer credit. Though the figures are large, the overall picture is described, nevertheless, as subdued by spokesmen for the sector when compared with the rapid expansion in the late 1980s. David Hardisty, chairman of the FLA, admits to a steady rise in consumer credit but points out, "we are definitely not seeing another credit boom".

Many consumers are repaying existing debts, as well as committing themselves to new credit. On average customers repay the amount owing on a store card within six weeks.

Moreover, the latest FLA figures for August show the overall growth in consumer credit slowing up. Borrowing on store cards fell by 9 per cent in July to £375m. Personal loans, at £256m, were down by 1 per cent month-on-month, though up by 30 per cent on the same month last year.

"Consumers haven't forgotten the last set of interest rate rises. The government underestimated this fear factor and put up rates when confidence was still too shaky," says Mr Hardisty. Nor has the situation heen helped by the government's tax increases which have further militated against a consumer-led recovery.

In asset finance, the situation is broadly similar. The FLA points out that while there was a slight recovery in 1993 the figures for total advances were almost 20 per cent below the peak year of 1990. "At this stage in the economic cycle, the business finance figures are frankly disappointing. We would expect to see much more investment through hire purchase and leasing," says Mr Hardisty.

The sector is looking to the forthcoming Budget for help in revitalising the sector and, coincidentally, to assist the government to achieve its own aim of promoting an investment-led recovery. The FLA has euggested in its 1994 tax submission that the 40 per cent writing-down allowances on plant and machinery in operation over the 12 months to October 31, 1993, be reintroduced as from budget day. The association, and its members, say this could provide a vital fillip to the industry during an uncertain period.

But while overall recovery may be slow, the industry is developing increasingly sophisticated forms of finance to support its customers during the recovery.

While overall recovery may be slow, the industry is developing increasingly sophisticated forms of finance

In asset finance, a small business can lease a production line which can be paid for by instalments out of profits. Such devices are designed to distinguish asset finance from the services offered hy banks.

Derek Soper, chairman of AT&T Capital, believes that asset finance has reached a "stage of maturity" and must develop new areas of operation to enable it to grow.

It will, he argues, be difficult for the industry to improve upon its current performance of financing 30 per cent of all capital equipment purchases. Growth will come in areas such as operating leases, where the lessor takes a real risk in the equipment provided, in motor car finance through contract hire, and throngh financing privatised industries, such as the railways.

Anolher growth area is expected to be so-called "captives" – finance houses owned by manufacturers. While some observers point to the negative impact they can have on the parent balance sheet, because of their higher gearing, their numbers are growing.

Forward Asset Finance, of the Forward Trust Group, s subsidiary of Midland Bank, which has provided services to more than 25,000 companies in the past three years, also sees innovation ahead. Hire purchase, it says, is growing in popularity, helped hy low and fairly stable interest rates.

Improved quality of service is seen as an important development. Forward has developed "industry specific" packages backed by trained staff in sectors such as printing, construction, engineering, and commercial vehicles, and beliaves the development of such services to be crucial to retaining existing business and to finding new customers.

In the high street and in the motor trade speed and convenience, as well as new approaches are also expected to play an important part in overall growth. Customers can, for example, be offered low and zero interest finance, where a finance house provides a loan, and the manufacturer pays the interest subsidy.

One comparatively recent entrant, Marks & Spencer Financial Services, is now among the leading participants under the FLA umbrella. The financial services it now provides have grown from the original charge card base to personal loans, unit trusts, pensions and life assurance.

In the motor sector, finance made availahle through UK dealers rose by 13 per cent year on year to £725m in August. For used cars it was up 33 per cent.

Worldwide, Ford Financial Services, the captive arm of Ford, recorded leasing advances of \$14.5bn – making it the world's top leasing company ahead of GE Capital and GMAC (General Motors), according to a survey by Asset Finance and Leasing Digest.

In 1992 and 1993, point-of-sale credit made the arm the most profitable part of Ford. Total advances to customers worldwide exceed £70hn. In 1993, Ford Credit Europe financed 40 per cent of new Ford vehicles sold in the UK. In the future leasing and contract hire are seen as likely areas of growth. Ford Contract Motoring, for exampie, administers 32,000 vehicles in the UK.

In one recent development, Midland Bank's 3m credit card customers were offered the opportunity to lease a car for up to two years, and either return it at the end of the period or buy it.

Finance houses have devised similarly structured deals where customers can pay off the depreciation on cars rather than the capital sum. (See motor finance, page 2)

Paul Gee, managing director of Lombard Business Finance, predicts that a highly competitive market will develop in asset finance where the struggle to find s clear image and promote service excellence are important. Growth is expected from projects falling under the government's Private Finance Initiative, which is intended to take private finance into hospitals, utilities, and railways.

Management huy-outs have also become a new area of interest to the finance houses. Pascon, the former BTR plant hire and scaffolding company, acquired by its management in a £33.5m transaction, is one example. (see page 6).

In another innovative deal Lombard provided a staged payments plan which, it said, combined the benefits of term funding with the flexibility of clearing hank facilities for J.P.Fruit Distributors. The company needed a 3.5 acre site at Dartford, south London, for 34 temperature controlled pressure ripening rooms.

Barclays Mercantile, another leading participant in the market, is using money from the European Union to promote investment. A European Investment Bank scheme provided a cash rebate of £2,300 per new job created, if the project cost more than £20,000 and the jobs last five years.

According to Garry Clarke, pricing manager, Barclays used its expertise to get clients through the machinery of the scheme and speedy access to the £12m aid available. Barclays claims a 90 per cent success rate for clients chasing loans of hetween £250 to £30,000 under an earlier EIB loan subsidy scheme.

In consumer credit, the entry of new participants, especially from the US, has created strong new competition in in the European credit card market.

Veuxhall Motors, a subsidiary of General Motors, was the first UK car manufacturer to enter the credit-card market, launching a British version of the GM card available in the US. Since the GM card was launched in the US in September 1992, almost 8m people have become card holders.

Such developments have also led to expansion in the list of FLA memhers – from the Antomohile Association to Rank Xerox, and to the growth of niche companies finely attuned to a specific market. Meanwhile, the leading clearing banks, and the building societies, continue to develop their finance arms. For all the participants the future offers an expanding market during recovery in a climate of intense competition and innovation.

IN THIS SURVEY

Editorial production: Roy Terry

CONSUMER CREDIT AND ASSET FINANCE 2

Consumer credit: **Christopher Price** looks at evidence from the high street

The trend is still decidedly upwards

The rise in consumer credit in the past year, which has reflected the growing confidence in the high street, has not been a smooth one, and the latest rise in interest rates has further highlighted the fragility of the recovery.

However, the trend is still decidedly upwards. Figures for 1993 showed how much the consumer credit market had recovered from the recession, and 1994 has so far huilt on this.

According to the Finance and Leasing Association (FLA), new lending by its members was up 25 per cent last year at £13.1bn (1992: £10.5bn). The biggest rise was seen in the store instalment sector, where new credit rose 46 per cent to nearly £1bo (£664m). Storecards themselves showed only a 12 per cent rise to £3.4bn (£3.0bn), reflecting the trend among retailers to offer promotional credit to bolster sales.

There was a steep climb in the number of unsecured personal loans which jumped 36 per cent to £2.1ho (£1.5bn) last year.

Motor finance also staged a good recovery. The FLA figures show a 34 per cent rise in motor finance credit in 1993, £5.5bn being taken out by customers against £4.1bn in the previous year.

The trends so far in 1994 give a mixed picture of the demand for credit, although an overall positive one. The April tax increases and the rise in interest rates in September have both had effects, the first feeding through slowly to dampen consumer spending and the second raising the cost of credit with a negative effect on demand.

There was a steep climb in the number of unsecured personal loans which jumped 36 per cent last year

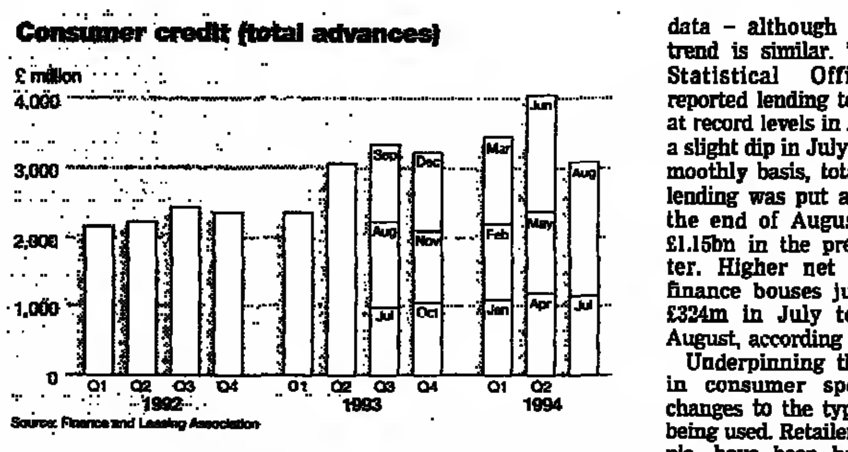
Inflationary avideoce since then, in the rest of the developed world's ecooomies as well as in the UK, has raised expectations of further rises in interest rates.

It was just such a fear which was attrihuted to the slowdown in consumer credit in August. According to the FLA, consumer credit was up 12 per cent at £3.1bn (£2.8bn) year-on-year, and up 44 per cent on the July's total. However, this latter jump was due to August car sales which received their annual boost from the impact of new registrations.

The overall consumer credit rise on an annual basis was lower than in previous months. David Hardisty, chairman of the FLA, said: "The government underestimated the fear factor and put up rates when confidence was still too shaky."

Personal loans slipped 1 per cent to £256m from the previous montb, although thay remained 30 per cent ahead of tbe year before. Store cards were also down from July, falling 9 per cent to £375m, hut showing a 58 per cent rise year-on-year.

Consumer credit (total advances)



Source: Finance and Leasing Association

Infolink, the credit information group, has produced similar findings. Tracking credit inquiries by its customers, its research showed demand to finance houses – which provide finance for cars, store cards and "in-bouse" store credit – 18 per cent ahead in July year-on-year, retail 6.7 per cent up and new car loans 3.6 per cent ahead. These were nearly all less than the previous month's rises. Brian Bailey, chairman of Infolink, said: "It is possible that this reflects a stabilisatioo in the pace of recovery, ratber than a genuine lack of speoding confidence."

Official statistics are somewhat at odds witb industry data – although the upward trend is similar. The Central Statistical Office (CSO) reported lending to consumers at record levels in August after a slight dip in July. On a three-moothly basis, total consumer lending was put at £1.58bn to the end of August, up from £1.15bn in the previous quarter. Higher net lending hy finance bouses jumped from £324m in July to £486m in August, according to the CSO.

Underpinning the recovery in consumer speoding are changes to the types of credit being used. Retailers, for example, have been handing over their card and credit systems to finance houses.

"Retailers are focusing their atteotioo on retaining customer loyalty and concentrating oo what they do best," said John Morgan, managing director of Personal Finance at Lombard North Central, tbe financial services group.

Retailers have also been moving away from option and budget cards in recent years, opting instead for promotional credit. This might typically offer consumers not only more frequent sales bargains, but also cheaper credit with which to buy them. Mr Morgan estimates that as much as 50 per cent of high street stores' sales are bought on promotional credit.

Retailers have in recent years been moving away from option and budget cards, opting instead for promotional credit

Many of the high street retailers have farmed out there credit businesses. In 1989 Storehouse, the BHS, Habitat, Mothercare and Richards retail group, sold its card business with 400,000 customers, accounting for about 8 per cent of the group's turnover, to Yorkshire Bank.

Four years ago, GE Capital, the financial services husiness of General Electric of the US, paid £183m for the financial services business of Burton, the high street clothes group. The deal brought GE a card holder base of 3m and the management of several other retailer card operations.

GE also took over the credit card operations of The House of Fraser, which has 1.1m customers. House of Fraser pays GE Capital a fee and the deal is initially for 15 years. GE also acquired the motor loans business of Mercantile Credit, a subsidiary of Barclays.

Lomhard paid £100m for Thorn EMI Financial Services and Trinity House Finance. Store cards and consumer credit business for Thorn EMI's retail outlets, including Rumhelows, are owned by Lombard, which also looks after new business for Granada and Visionhire.

"Consumer confidence is returning, although it does seem to he slowing down, and this is showing through to the credit market," says Mr Morgan. "But people are shopping around and retailers and credit providers are having to respond."

Motor finance: **Christopher Price** looks at personal contract purchase schemes

Quiet revolution in marketing strategy

A quiet revolution is under way in motor financing. In August, around half the new M cars registered will have been sold through a personal contract purchase (PCP) scheme – just over two years since the first national plan was introduced by Ford, the car manufacturer.

Sine then, Ford's Options has been joined by schemes from nearly all car manufacturers, including Vauxhall Choices 1-2-3, Rover Select and Peugeot Passport.

The schemes are a return to the old-style leasing schemes, but with a significant difference: drivers have the option to purchase the vehicle.

Private buyers pay a deposit on a new vehicle, typically anything over a fifth of the value. The dealer will then calculate the future value of the car at the end of the payment period, which can be anything from two to five years. The buyer pays the difference, plus interest, as a monthly payment.

At the end of the period the buyer has two options: to buy the vehicle outright, for which the outstanding future value sum must be paid; or to part-exchange the vehicle for another new car. Thus instead of paying the remaining lump sum to own an older car, the buyer trades it in to pay a similar amount for a new one.

For the customer this has obvious advantages. It makes a new car more affordable. Monthly payments are lower than with a straight loan or hire purchase where the entire cost of the car is repaid over the term of the agreement. For example, with a PCP, a Rover Metro can be leased for as little as £25 a week, after the initial deposit. It also means that the customer will have a new car every few years. Another honus is that often the warranty oo the car will mean that many potential repair costs are covered.

As well as giving the new car market a shot in the arm, PCPs carry other benefits to the dealers and manufacturers. They promote brand loyalty, encouraging customers to exchange their used cars for new. The manufacturer benefits from the regular servicing and repair of the vehicle plus, at the end of the term, the probability of the customer trading in the old vehicle for a new one of the same make.

'The finance houses and the car dealers have finally got their act together by employing highly-trained financial sales staff'

If the customer does decide to hand back the car, the garage is left with a low mileage – most of PCP schemes limit annual mileage – car, with one owner and which has been serviced regularly, which can then be sold on.

But PCPs have not suited all buyers. They are unusually available only on new cars, or sometimes those up to two or three years old. For many buyers, particularly those who do not have an old car to trade in or a lump sum, it is not convenient to find a deposit. It may also not be agreeable to pay a lump sum at the end of the payment period.

Another potential drawback is that agreed future values are covered by a variety of clauses, particularly those insisting on the good condition of the car, and mileage limits – usually 6,000 to 12,000 a year. As well as never owning the vehicle outright, drivers are also tied to the same manufacturer every time they change models.

However, the overall success and popularity of PCPs is undeniable, to the extent that banks and building societies are changing their product ranges to meet the challenge. Yorkshire Bank, which offers car loans with a typical annual percentage rate (APR) of about 16 per cent, has introduced an HP-style New Car Finance Plan with typical APR of between 10.7 and 11.6 per cent for loans of £3,000 and above.

Midland Bank recently offered its 3m credit card customers Carchoice, in which they could lease a new car from Swan National – the hire company bought by the bank last year – for two years and either return it at the end or buy it outright for an extra fee.

There have been other developments in the motor finance sector underpinning the PCP revolution. "The finance houses and the car dealers have finally got their act together," says Graham Woodhouse, chief executive of Rover Finance. "We are at the point of sale so that customers get not only first-class sales service but also the best financial assistance as well."

Buyers of new cars are increasingly choosing personal contract purchase schemes

The result, says Mr Woodhouse, is an improved service and an increase in sales. "We have increased the number of sales inquiries into actual sales." This has been achieved through a high investment in new technology at garages. Customers can be informed of terms and conditions for potential purchases on a variety of options within minutes of an inquiry. Neil Tomkins, managing director of Lombard Motor Finance, said: "Those customers who would have gone to the bank for a loan are now being converted at the point of sale through better training and new technology."

The upgrading of the point of sale has occurred while dealers' margins have declined. With many manufacturers offering cash-back deals on various models, dealers' margins have been cut from around 18 per cent to 10 per cent. According to the Finance and Leasing Association, new car motor finance was up 28 per cent year-on-year for August.

"It's a healthy leap, but the biggest part seems to have happened at the start of the year, and the indications are that sales growth is slowing," said Mr Woodhouse. But he added: "We do seem to have recovered the feel-good factor in the industry."

CONSUMER CREDIT AND ASSET FINANCE 3

Small business finance: **Richard Gourlay** looks at asset-based lending

More flexible than overdrafts

Heavyweight encouragement: Eddie George and Kenneth Clarke have advised small companies to seek alternatives to overdrafts

Leasing and hire purchase have rarely had a better press. Largely swept away is the old image of HP companies lending more expensively than the banks.

In its place, asset financing is increasingly being seen as a flexible form of finance that can be cheaper for small businesses than bank overdraft.

Asset-based finance remains one of the few sources of medium-term finance for smaller companies and one of the only places that start-up companies can turn to for funds.

While the image of leasing suffered as the result of a small number of photocopier supplier agreements, it is arguable that the industry's reputation has emerged from the recession in more robust shape than that of the banks.

"There have been stories recently of the banks relaxing their lending criteria," says Lesley Kay of the Finance and Leasing Association, which represents many of the UK's leasing companies. "But small businesses which have had bad experiences with banks feel more comfortable if they can get finance from a finance house."

Small companies have also had heavyweight encouragement to seek alternatives to the overdraft which is still used more frequently to raise finance in the UK than anywhere else in Europe.

Responding to the debate about small company access to capital, the chancellor of the exchequer, Kenneth Clarke, and the governor of the Bank of England, Eddie George, this year encouraged companies to seek alternatives to overdrafts. To finance short-term assets – such as working capital – companies might consider factoring, both recommended. For fixed assets, they suggested companies should look at leasing.

The attraction for small companies is threefold. First, there is certainty. Assets cannot easily be repossessed by the finance house as long as payments are maintained. An overdraft, on the other hand can be withdrawn.

Small businesses are also more likely to raise fixed-rate finance rather than the variable rate of most overdrafts. Finally, hire purchase and leasing offer a variety of opportunities to use capital allowances in a tax efficient manner.

The steady growth of financing is evident in the figures. According to the FLA, its members lent £13.9bn in the 12 months to August 1994, an increase of 11 per cent over the same period last year. Of that leasing was up only 3 per cent to £7.3bn but it is rapidly being caught by hire purchase, up 32 per cent at £6.1bn.

The FLA estimates about a quarter of this by value and much more by volume is finance for small business and that about 50 per cent of small companies fund their equipment purchases through hire purchase or leasing.

The rapid rise in hire purchase can be explained by the fact that many companies have discovered hire purchase is barely more expensive than finance leasing where the asset reverts to the lessor company at the end of the lease.

Leasing is particularly attractive to new companies that have no track record and would have difficulty raising overdrafts. Because finance houses are as interested in residual values of underlying assets as they are in the state of the business they are backing, they have a wholly different approach to banks.

The finance houses have also tended to specialise in certain asset classes; close asset finance, for example, has developed an understanding of the value of printing equipment which has made it the first port of call for companies seeking to set up printing presses.

One beneficiary of leasing's flexibility is Sheffield Omnibus, a start-up company that wanted to buy 12-year-old second-hand vehicles in 1990. The banks would not look at assets of that age. But a finance house which was familiar with the residual value of commercial buses, was able to finance the deal. Now that the company buys new assets for its expanded fleet it still chooses to use a finance house rather than the banks.

Finance and hire purchase is attractive for companies with assets with long lives such as buses. But companies trying to buy computers have less chance of raising finance. These assets have notoriously short lives, not because they quickly wear out but because they are rapidly considered obsolete. Quite simply, a two-year-old computer's market value falls extremely quickly.

The residual value of such investments is probably something only the manufacturer will be fully equipped to assess. Such deals will remain the preserve of financing companies that support equipment suppliers.

For the very smallest unincorporated companies, leasing may also be about to become a more accessible option. Until now, the UK's small army of unincorporated companies have been covered by the Consumer Credit Act (CCA) when they borrow up to £15,000.

Rather than working in their favour, the FLA estimated this has denied them access to more than £100m of finance which finance houses would have been willing to lend.

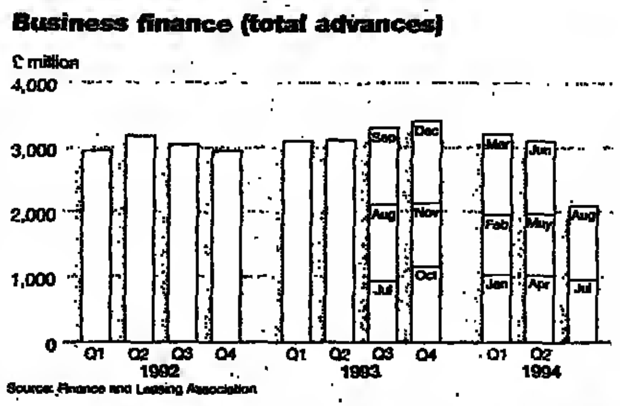
The problem is that the Consumer Credit Act weakens a finance company's ability to repossess assets. If, for example, an unincorporated company had already repaid a third of the agreed amount when it defaults on its payments, a finance house would need a court order to repossess the assets. As a result a number of finance houses simply chose not to risk the costs of dealing with these companies.

But in June the Office of Fair Trading recommended that business lending should no longer be covered by the Consumer Credit Act. The department of trade and industry is studying the recommendation and is expected to announce its intentions shortly.

If business lending is excluded for the CCA, this would not only boost the number of prospects for the finance and leasing industry.

It could also provide a much larger population of companies using a more stable way of financing the main assets in their businesses, reducing their vulnerability to banks the next time the business cycle turns down.

Leasing is particularly attractive to new companies



Big-ticket leasing: **Jim Kelly** reports

Recession takes its toll

The British "big ticket" market in financial leasing has been hit hard by the recession and appears reluctant to recover.

The government's privatisation initiatives have provided vital new business for the big participants but even here evidence of new growth is patchy.

With "big ticket" loosely defined as in excess of £5m it is clear that few businesses felt able to take on such liabilities during the recession.

In fact, "big ticket" is often defined as in excess of £100m – and rising. Leased assets can now range from an entire production line to a new power station.

The significant drop in UK investment, particularly in providing for expanding production with new plant, has been coupled with a restriction in the tax capacity of the banks. As the banks were the parents of many of the biggest names in the industry this acted to restrict supply to the market.

The value of the market in the second quarter of 1994 was £245m, compared to £512m in the preceding quarter and £542m in the same quarter in 1993. The last quarter of 1993 reached £805m.

In the "big ticket" market, particularly, the Finance and Leasing Association's (FLA) call for this year's budget to reintroduce greater tax allowances, ideal for new investment in plant, will be welcomed.

But in the short term the sector is flat, but not stagnant. "At this stage in the recovery we would expect more big-ticket leasing. There is activity in some areas – aircraft, power and transport – but there is not the investment in green field sites that we had hoped to see," says David Hardisty of the FLA.

Like many in the industry Mr Hardisty looks to privatisation for growth and the government's much vaunted but slowly emerging Public Finance Initiative (PFI).

In fact, the PFI is a repeat of history for the finance and leasing industry. Lombard Group, one of the leading participants, can trace its roots back to the North Central Wagon Co founded in 1861 to purchase and hire railway wagons for the coal-mining industry.

Mr David Hardisty explains: "Leasing is particularly suitable for privatised companies which may not be in a position to benefit from tax allowances themselves.

"Through a leasing arrangement capital allowances are accrued by the lessor as and when the expenditure on the project is incurred. The benefits of these are then passed back to the lessee through lease rentals. Leasing is one of the most efficient ways of using capital allowances. Tax losses can be turned into immediate benefits."

Throughout the industry the leading players reflect a picture of disappointing activity and a search for new forms of financial leasing.

John Brown, founder of NWS Bank, and an executive director, characterises the market as one flushed with capacity but short on projects with a resulting tightening of margins for the lessors.

However, he is more than optimistic that the sector will return to growth. He sees Japanese investment in the car industry in the UK, the privatisation of British Rail, and new stock for the London Underground as areas of potential new business.

NatWest Markets is proud of its involvement in a £290m leasing facility for Humber Power for gas and electrical plant and machinery. Despite tough trading conditions it sees new opportunities in evidence: "Inward investment is particularly encouraging especially from the Far East and is highlighted by the recent announcement from NEC Corporation and Samsung in respect of major investments in Scotland and the north-east respectively.

"The utility sectors remain an important area for the leasing industry as illustrated by NatWest Markets' recent involvement with Humber Power."

Peter Graham, joint managing director of Airstream Finances, leases 200 commercial aircraft on six continents. Despite a difficult trading period he notes that the market is hardening with a 15 per cent rise in rental rates in the past 12 months.

Hill Samuel Asset Finance, one of the leading participants, has a strategy of "added-value" big-ticket transactions and has seen a "marked increase in business". It points to successes in aircraft, ships, shopping centres, and accommodation for university students as well as financing for more traditional assets.

"The market place in general is seeing a slow recovery and is in need of an investment stimulus," according to Anthony Jukes, managing director. He notes that it could be "several years" before investment decisions move into "spend mode".

Mr Jukes also notes that the OECD economies in general have now achieved low inflation with growth in GDP but that there remains concern that fixed asset investment is still showing little or no growth. "This trait is particularly borne out in the UK where despite the low inflation conditions the number of instances of major new investment have been few and far between."

Mrs Anna Merrick, head of leasing at Abbey National Treasury Services, says that in the present interest rate regime margins favour lessees. Recent successes for Abbey National include part of a new rolling stock order of £150m for Network South-East.

For John Carr, business director of Royal Bank Leasing, there "is a huge potential in the public sector if only the key can be found". He lists successful deals in recent months in leasing two Boeing 757s, and significant contracts with a water company.

هكذا من الأصل

Car fraud: **Motoko Rich** looks at steps being taken to reform the industry

How to beat the swindlers

Purchasing a second-hand car can be a risky business. According to HPI, the vehicle credit information organisation, as many as one in three cars sold privately may have been written off by an insurance company, reported stolen or may be subject to a finance agreement. A potential buyer is unlikely to be aware of any of this.

The fraudulent sale of vehicles still subject to finance agreements is increasing. According to a survey conducted by the Finance and Leasing Association, its members reported 9,500 cases of such fraud, which cost them more than £45m between February 1993 and February 1994.

The incidence of such fraud haa increased over the past few years as more buyers use a form of financing to purchase cars. According to HPI, more than 55 per cent of all new cars are now bought with the aid of a finance agreement. Six years ago, that figure was closer to 25 per cent.

Finance and leasing car fraud can be conducted in several ways. Perhaps the most common awindle is when a car owner sells a vehicle subject to a finance agreement without informing the buyer.

If the first buyer of the vehicle used a contract hire, contract purchase, lease purchase, or any other form of lease finance – all of which have become increasingly popular forms of finance – the new buyer does not inherit good title and is legally liable for the debt, while the finance company would be entitled to take remove the vehicle.

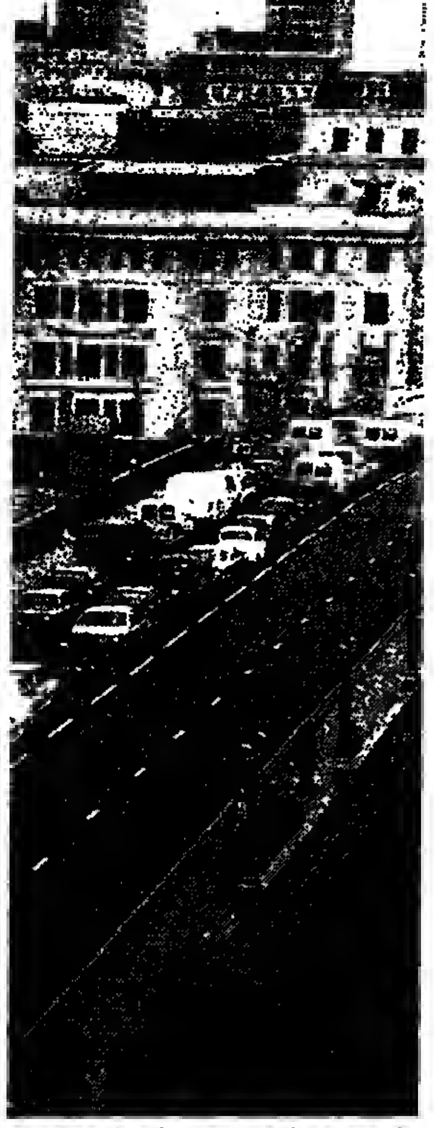
If, however, the car was originally bought with a hire purchase agreement and the second-hand buyer does not know about the financing, the new buyer is guaranteed some protection under the Hire Purchase Act of 1964.

The act says thet innocent buyers of cars subject to hire purchase agreements receive good title to the car and are not responsible for the remaining debt on the vehicle. But while the consumer is protected, the finance company loses out because it is unable to repossess the car or demand repayment from the new owner.

Frank Layborn, chairman of the working party on aprotection of title initiative at the FLA, says the 1964 Hire Purchase Act is tantamount to a "villain's charter" because of this loophole in the law.

He says fraudsters can orchestrate a transaction thet is completely protected by the law. "You now have the situation where person A, for example, buys a Ford Mondeo on a hire-purchase agreement. Person B buya another car. Then they meet in a pub and they exchange the cars without telling each other about the hire-purchase agreements, and they both get good title," he says. "Neither of the finance companies can collect the money or their property because both buyers have good title."

To combat these various forms of fraud, the FLA, supported by the Consumers Association, the Society of Motor Manufacturers and Traders, the Retail Motor Industry and tha Driver Vehicle Licensing Association, has proposed a statutory car ownership register.



Bridge over troubled water: fraudulent sale of cars is on the increase

All manufacturers and importers would have to register with a centralised service which would keep track of all subsequent changes in ownership and finance agreements. It would also store information about insurance write-offs and keep records of mileage and cars reported stolen.

Each car would be registered by its vehicle identification number (Vin), a 17-digit number allocated at the point of manufacture. Unlike a registration number, which can change if licence plates are changed, the Vin is set by a worldwide standard and would remain constant throughout a car's life, making it difficult for fraudsters to disguise a car's identity.

Anyone buying a used car privately would be legally required to consult the register to check the vehicle's ownership. Since a finance company owns a car until the debt is paid off, such a register would immediately reveal any finance agreements.

The loophole in the 1964 Hire Purchase Act which protects "innocent" buyers of cars subject to hire purchase agreements would be eradicated. "It would be the buyer'a responsibility to take sensible precautions before parting with their money," says Mr Layborn. "So, for example, the two guys in the pub would not have good title because they would be construed to hava knowledge of the hire purchase agreements under the law. They would be liable if they did not check the register."

HPI already provides a register service, hut because it is not enshrined in legislation, Mr Layborn says it is not sacrosanct. "If a finance company does not want to register it does not need to," he said.

HPI is helping the FLA with its legal proposal, and hopes to bid for a tender to provide the national service.

In the meantime, it collects data for seven registers that 18,000 subscribers in the motor trade and 1,100 in the finance industry use on a regular basis. The outstanding finance register, for example, contains details of the finance arrangements on 5m vehicles listed, and the vehicle identity register provides confirmation of the make, model, colour, engine size, transmission and fuel type for all vehicles registered with tha DVLA since 1986 – now numbering about 19¼m.

In addition, HPI'a services are available to members of the public. For £25, a customer can access any of the HPI databases and make sure the car they intend to purchase is clear of finance agreements. They can also check that it is not stolen or written off by an insurance company and make sure the previous owner has not changed registration plates or misrepresented tha car's age.

Consumers who check the HPI register are technically giving up their legal protection. "Once you use our service it could be argued that you are no longer an innocent purchaser," says Nikki Websper, marketing manager at HPI. "But you would be daft to buy a car that had an outstanding finance agreement."

Leasing: **Jim Kelly** examines progress on new accounting practices

Standard reforms on the way

Most large finance leasing companies in the UK produce excellent accounts and are a model of corporate reporting in the eyes of standard setters and the users of financial statements.

The problem for the industry, which it readily acknowledges, is that its image is still tainted by the memory of failures like Atlantic Computers and Court Line: the first a lessor and the second a lessee.

These collapses, and the increasing tendency for lessors to be dealers in assets, often give a jaundiced picture of a vital industry to those in need of a creative answer to capital problems.

The industry, and the government's own standard setters, are working hard to improve the integrity of leasing finance. It is worth looking at the case of Atlantic Computers to see where many of the problems began.

Atlantic was founded in 1975 to provide leasing, lease-financing, broking, and the sale of computers. It was floated in 1983 and was swallowed by British & Commonwealth in 1988 for £408m. Two years later both collapsed.

Atlantic had reported aggregate pre-tax profits of £127.6m between 1983 and 1988. When the department of trade and industry finally got their hands on the books its inspectors were able to report that if prudent accounting methods had been used no significant profits should have heen reported.

The problem was Atlantic's core product: Flexlease. This prodnct was not viable in the long term hut this was concealed by the way in which the company accounted for profits and failed to make provisions for contingent liabilities.

Flexlease was in fact three products: a six-year lease with two options – the "flex" option allowed renegotiation for a new agreement after three years, while the "walk" option allowed the client to terminate the lease after five years.

The options gave rise to large potential liabilities as more customers took the "walk" option.

It is this type of "treadmill" situation which is often the root of the problem in lessor accounting: where the growth of the business obscures unprofitability. Once growth diminishes the spiral goes into reverse.

The Finance and Leasing Association (FLA) has responded to the type of problems illustrated hy Atlantic, and other failures, by pushing ahead with reform for lessor accounting, particularly in the area of residual values.

David Hardisty: pushing ahead with accounting reforms for lessors

The FLA's focus on residual values is understandable in the light of several corporate adventures which have ended in failure. However, many outside the industry would like to see a wider reform, tackling the need for lessors to give realistic information on profits. The "treadmill" nature of leasing finance makes this an area open to abuse.

The FLA does, however, deserve credit for campaigning for reform and realising that the future of the industry relies on a public perception of professional integrity.

Both the FLA, and its predecessor the Equipment Leasing Association (ELA), became aware of the problem during the mid 1980s – particularly in the field of computer leasing.

The ELA suggested setting up a joint working party with the Institute of Chartered Accountants in 1986. The institute felt the issue warranted a full accounting standard and passed the problem on to the Accounting Standards Committee (ASC).

In 1993, the FLA approached the Accounting Standards Board, which succeeded the ASC, on the issue. "They acknowledged that residual value accounting was a problem area along with other aspects of lessor accounting. They suggested that the FLA itself should, in consultation with them, draw up a Statement of Recommended Accounting Practice (Sorp) on lessor accounting issues," according to the FLA.

The ASB has allowed the industry to set up a "Sorp-making" body and it will meet later this month. Despite some friction hatween the standard makers and the FLA the industry will hope that the Sorp will be an influential accounting standard similar to those introduced in banking and in pension funds.

The FLA, through the Sorp process, would like to see reaidual values more realistically calculated for lessors.

Those values should also be revalued at intervals. The timing of the impact of revaluation on the balance sheet is another issue to be considered. Should the company accounts take a single hit or should the impact be spread over the life of the lease? The Sorp is likely to propose a conservative compromise between the two.

The FLA disagrees with the ASB when it comes to reforming the standards governing lessee accounting. David Hardisty, chairman of the FLA, says: "We take the view that the ASB should be more concerned to ensure that lessors are properly accounting for their profits rather than with what should be on or off balance sheet, which seems to be their current preoccupation."

The ASB's present financial reporting standard is SSAP 21 – the standard set by the old Accounting Standards Committee, which became effective in 1987.

It drew a distinction between finance leases, which were transactions with contracts in which the lessee paid most of the value of the asset, and operating leases, usually over a shorter period.

In the first the asset is treated as a purchase, appearing on the balance sheet of the lessee, with the profit and loss account incorporating the cost of borrowing and depreciation. The second item is allowed to remain off balance sheet. The profit and loss accoumt simply shows a charge for servicing the lease.

How do you tell the difference between the two? The "90 per cent test" states that a finance lease was any lease in which the present value was at least 90 per cent of the asset'a fair value.

The result of this rule was, as is so often the case in accounting, the creation of a small industry dedicated to circumventing it, particularly in big ticket leasing. Leases were engineered to be off balance sheet at 89 per cent.

Lessors also ahused the spirit of the regulations. In their accounts the requirements were the inverse of those for the lessee and creative accounting can remove the impact of the lease on the balance sheet.

Third parties were introduced between the lessor and lessee with the result that, in some cases, the impact of the transaction was not shown at all.

This state of affairs is unlikely to survive in the face of the ASB's Financial Reporting Exposure Draft 4, and the ASB's statement of principles. The first seeks a picture of the true nature of transactions in accounts and the second defines the true nature of assets and liabilities.

All eyes will be on the ASB in the medium term for reform in this area – and in the shorter term on the Australian Accounting Research Foundation – which is currently considering the very same issue.

The industry: **Alison Smith** looks at the range of finance companies

Range of participants widens

Financial leasing is helping to build new businesses in many ways. Pictured above are the management buy-out team at Pascon, the scaffolding and plant hire company. The success of the buy-out partly depended on help from Lombard Business Finance. National Westminster Bank and 3i, the venture capital group, also helped finance the buy-out. From the left are Gary Leitch, senior executive, Lombard Business Finance, Ian Brain, financial director of Pascon, Kevin Bright, managing director of Pascon, and Richard Priestman, of Lombard Business Finance. (See page 3)

Would you buy a car through a merchant bank? Would you ask the people who make or sell your television set for a loan?

Though the instinctive answer to both questions is "probably not", the percentage of individuals and businesses who respond positively demonstrates the wide range of companies in the consumer credit and asset finance industry.

A glance down the membership list of the Finance and Leasing Association reveals some implausible participants: the Automobile Association, Kodak, Marks and Spencer, and Rank Xerox are all among the organisations with offshoots in this area of finance.

This does not mean, however, that these or the more predictable financial institutions in this sector are all in direct competition. Rather, it reflects the varied types of finance with which the sector deals.

At one end of the scale are the unsecured personal loans – perhaps with a minimum of £500 – offered by all the leading high street financial institutions. At the other end are the asset finance arrangements set up by merchant banks as part of the financing services they provide to their large corporate clients.

"We have done tiny, tiny deals as favours," says Andrew White, joint head of financing at Kleinwort Benson where the main lines of asset finance are in the vehicle, information technology and aerospace markets. "But ideally we don't want to do e deal below £2m."

Between these extremes is a range of finance where there is room for mainstream providers and companies which have identified specific niches to win substantial shares of relatively narrow markets.

For example, First National Bank, the core consumer finance arm of First National Finance Corporation, specialises in providing suppliers of home improvement goods and services with financing deals they can offer customers at the point of sale.

Point-of-sale finance is just one way in which competition to provide or arrange finance between merchandisers as well as to provide the more conventional sources of funds is intensifying.

Take the case of someone buying a new kitchen or double glazing. These customers might think first of obtaining finance from the bank or building society with which they deal. But they are also potential financial clients for the retailer or manufacturer from whom they are buying.

The principles are the same in corporate business. A company replacing a fleet of cars might consider approaching the merchant bank which advises it about the other aspects of its financial arrangements, but, equally, will face a determined effort from motor companies to win its business.

The varied backgrounds and structures of consumer finance organisations enables them to put forward different selling spiels, from convenience to financial expertise or long experience in the goods or services being sought.

All the largest clearing banks have their own finance houses through which they offer leasing and structured finance for personal customers and small businesses, directly or through the bank itself.

The growing importance of finance houses is illustrated by their increasing contribution to bank profits. In turn, the finance houses believe that being part of a larger banking group can also assist their business.

For example, Forward Trust, Midland Bank's finance house, says the main benefit is in the competitive and attractive funding rates it can offer as part of the larger organisation.

Less important, there is also the prospect of referrals from customers who approach the banks through its branches.

Like the finance houses in the banks, consumer finance arms of building societies say that their position in the group gives them the benefit not just of the scale of inquiries but also of the brand name.

"Customers know and trust the organisation," says Richard Roche, head of marketing at Alliance & Leicester Personal Finance.

There is, however, a restriction on the type of consumer finance building societies can offer. Although relaxations in rules are on the way, at present societies cannot lend for business purposes.

This can lead to difficult decisions in dealing with sole traders. A taxi driver applying for a car loan would have to be turned down if it was obvious that the vehicle would be used for business, but a plumber wishing to buy a car would be eligible for a loan unless the vehicle was primarily for business use.

Different restrictions can apply where a consumer finance arm is part of a broader organisation.

At Marks and Spencer, for example, the financial services operation is expanding next year to add life insurance and pensions to the charge cards, personal loans and unit trusts it already offers. But earlier this year, Keith Oates, joint managing director, stressed: "We are first and foremost a retailer. Our financial services arm ought to be allowed to expand as it thinks fit without disturbing the plan for the whole group."

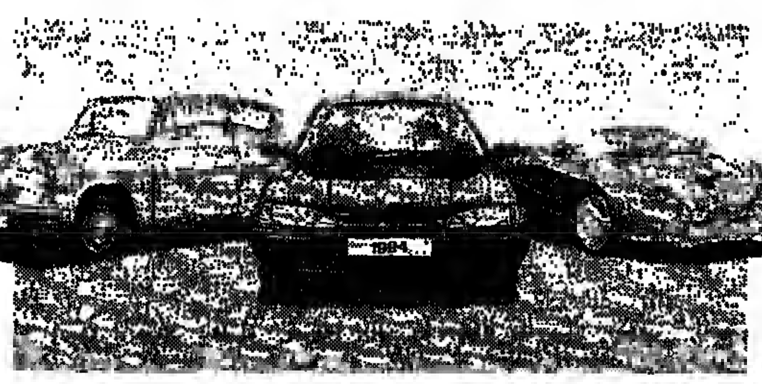
Ford Credit, part of the financial services subsidiary of Ford Motors, readily acknowledges it is a "captive". It says, however, that this does not unduly hamper its operation or development. Under the terms of the European Second Banking Co-ordination Directive it is a bank in its own right, and in 1993 it was among the top 10 finance houses in the UK.

Whatever their parent organisations, consumer credit and asset finance operations face opportunities and challenges in the months ahead.

The good news is that much of it should benefit from the recovery as businesses re-tool for expansion: in particular, the car market generally responds quickly to growth in the economy.

What is not such good news is that margins are narrowing. As one asset financier put it: "Foreign competitors are coming back to the UK market e bit early, there are not enough deals to go round, and so they cut prices to buy volume."

Fruitful business: financial leasing for big-ticket items is no longer limited to single assets. Mark Allen (left), senior account executive at the London South Business Centre, and Clive Mannering, group financial director of J P Fruit Distributors Ltd, have good cause to smile. Lombard Business Finance provided vital support to help bring a project for ripening bananas in special sheds to a successful conclusion. (See page 3)

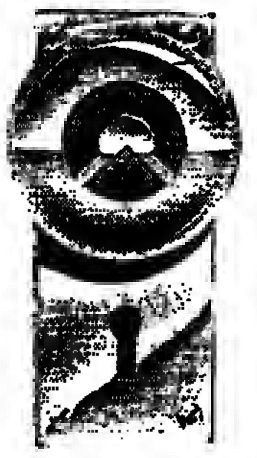


FT SURVEYS INFORMATION

FORTHCOMING SURVEYS LIST	Tel 071 873 3763 Fax 071 873 3062
SURVEY SYNOPSES	Tel 071 873 3763 Fax 071 873 3062
BACK NUMBERS £1.30 up to one month previous. Callers at shop – £1 £2.00 one month to one year previous	Tel 071 873 3324
SURVEYS INDEX (past two years) £3	Tel 071 873 3213
REPRINTS Quotes available for minimum 100 order	Tel 071 873 3213
ADVERTISING	Tel 071 873 3763

EDITORIAL
Information should be sent in writing to the Commissioning Editor for the survey concerned, Number One Southwark Bridge, London SE1 9HL, or fax 071 873 3197

Cheques and postal orders for the FT Surveys Index and Back Numbers should be made payable to Financial Times Ltd.



هكذا من الأصل

TURKISH FINANCE AND INDUSTRY

Thursday November 3 1994

This has been a dreadful year for business in Turkey. In March, financial markets collapsed, the Turkish lira lost over half its value and inflation topped 100 per cent.

For a few tense days, the entire economy ground to a halt. Shops emptied, factories stopped working. On one spring weekend, just one car was sold in the whole of Turkey. After averaging 6 per cent growth since 1990, the economy is now contracting by 4 per cent.

Yet many executives believe this severe crisis may finally have shaken politicians out of their complacency and crystallised public opinion in favour of free-market reforms.

Mrs Tansu Çiller, prime minister since June 1993, bears great responsibility for the mess, for allowing a consumer binge and speculative bubble to run out of control. The result has been: a 1993 budget deficit of 18 per cent of GNP and a current account deficit six times larger than the year before.

Confidence evaporated in January when Wall Street rating agencies marked Turkey's debt below investment grade, the central bank governor resigned and capital flooded out of the country. By March, Turkey was facing financial meltdown.

Mrs Çiller adopted a stringent stabilisation package in April to deal with the immediate crisis. The International Monetary Fund agreed to a two-year $756.2m standby loan in July, based on an aggressive programme of emergency taxes and spending cuts.

The economy minister, Mr Aykon Dogan, now claims total success in meeting the IMF's targets, especially on deficit-reduction. He says: "We have diminished the public sector borrowing requirement to 10 per cent of GNP, and it will no doubt be further diminished to 7 per cent in 1995. People said our programme was impossible to apply. But we are serious people."

The government also asked the World Bank for loans to support public sector reform that would attack the economy's underlying problems. Six months on, though, progress is barely noticeable. A weary World Bank staffer summarised Turkey's problem as "simply a situation where the government is too big and revenues too small".

Away from it all: what else should the ordinary citizen do when his country's economy comes to a halt?

Picture on the Istanbul waterfront: Terry Kirk

Consume less, borrow less

This year's economic crisis may have shaken politicians out of their complacency and crystallised public opinion in favour of free-market reform

Turkey must privatise state companies, eliminate subsidies, modernise the tax and social security systems and sweep away red tape. Determination, or the lack of it, to pursue public sector reform will shape Turkey's business environment in the years to come.

Mr Unal Korukçu, chief executive of Ankara's big Işbank warns: "We face a tough period for some years. Turks must accept the fact that they must consume and borrow less."

Privatisation has split the weak coalition government of Mrs Çiller's conservative DYP party and the social democratic SHP. Political stalemate is also delaying negotiations with Brussels over establishing a customs union. This requires adoption of European legislation, especially on competition and intellectual property. But these new laws, which would further underpin reform, are making slow progress in parliament.

Mrs Çiller is a US-trained economist. She knows reform is ultimately unavoidable and that it would place Turkey on a sound long-term footing, albeit at the cost of prolonging the current recession.

Yet she is a politician first, the leader of a weak and divided government. General elections are due by November 1996. Most business leaders – who dislike and distrust her – expect Mrs Çiller to equivocate and for Turkey's economic problems to return with redoubled force in 1996.

Still, economists expect the encouraging demand and production trends of recent months to build into 2-3 per cent growth next year, just enough to keep up with population growth.

Business executives are confident that public support for structural reform is approaching critical mass. A sound economy would certainly make management a less seat-of-the-pants affair and investment would recover.

But banks and companies would lose easy pickings in financial markets. They would miss the tax system's gaping loopholes and lax enforcement. Import tariffs are already falling. Intensifying competition, especially after customs union, will further depress industry's high margins. Companies will also lose big government contracts and subsidies – although these are mixed blessings, since debt-ridden Ankara always pays late.

It seems certain that Turkey's handful of conglomerates, which grew so powerful in the old hothouse economy, will continue to dominate the business scene. Few others can yet match the financial strength, market share, political connections and management skills of the pre-eminent Sabanci and Koç groups.

Yet small and medium companies have grown strongly, able to deliver intermediate technology goods as well made and well priced as anywhere else in the developing world. Recession and murderously high interest rates now threaten these often undercapitalised companies with bankruptcy. Fortunately, even very small companies can go public. Listings on the Istanbul market have grown by one-fifth to 169 companies since January 1993.

Turkey's strengths are its typical developing-country characteristics – rapid economic growth, a large and fast-expanding population, low operating costs – with the added benefit of some highly sophisticated companies, proximity to Europe and, if all goes well, customs union with an expanded European Union.

However, investment is too low. A US observer commented that under-investment is "something [companies] have to worry about. They have to continue improving productivity and sophistication, but it's not happening." He says research and development spending in Turkey is equivalent to only 0.5 per cent of GDP.

Instability discourages foreign investment: Turkey has received just $13.45bn in inward investment since 1980, mostly in the transport, cement and food processing industries. The underdeveloped legal system, where rulings can take years to obtain, may further discourage investment as business becomes more sophisticated and competitive.

Already a large part of the economy has gone underground to escape the incompetence and over-regulation – as well as the taxes – of officialdom. The underground economy helps explain why, in a year of such difficulties, the streets of Istanbul remain choked with traffic instead of protesters.

Professor Osman Altug, of Marmara University, says the unregistered economy has grown to 41 per cent of GDP from 34 per cent in 1992. Unregulated sales of consumer goods to smugglers from Russia, eastern Europe and central Asia alone provide about 200,000 jobs. The textile industry probably has unregistered exports of about $3bn a year.

But the informal economy also spawns corruption, loan-sharking and organised crime. Press reports of connections between gangsters, state companies, businessmen and senior politicians further reinforce the public's view of businessmen as flashy Mercedes-driving racketeers.

Disgust at corruption in state companies, their inefficiency – Istanbul ran out of water this summer – and the heavy financial burden they impose on the country are changing Turks' traditional view of these companies as the heritage of Kemal Atatürk and the economy's bedrock.

Yet public sector reform is blocked by fear of unemployment. Mr Dogan himself says three-quarters of the public sector's 2m employees are not needed. Mistrust of the business elite is probably another important factor delaying privatisation. And politicians fiercely resist any measure that reduces patronage.

The rise of the Islamic Refah party is frequently seen as a reaction against incompetence and corruption. The business elite and middle classes are growing further apart from the 40-45m ordinary Turks struggling to survive on the land or in big city slums.

Polarisation is not just politically dangerous. It is bad for business. Turkey needs a strong, well-balanced domestic market for companies to grow and exports to expand.

But Turkey lacks determined leadership. Mr Erol Aksoy, owner of Istanbul's Iktisat Bankasi, says: "We need strong governments, not coalition governments. We need a government [to begin reform] that is at the beginning of its term not at the end."

Turkey is still waiting for a successor to Turgut Ozal, the decisive former prime minister and president who mapped out reform in the 1980s but died last year.

Survey by
John Barham
With contributions by
David Tonge and Andrew Finkel

TURKISH FINANCE AND INDUSTRY 2

The economy: far-reaching reform is proving slow

Short-term overkill?

When Turkey's economy crashed this spring, the prime minister, Mrs Tansu Çiller, reacted by concocting a remedy so severe that even the International Monetary Fund feared she was going too far.

Despite its misgivings, the Fund – after prodding from Turkey's allies in Washington and other western capitals – quickly agreed to a $756.2m standby loan in July.

In her letter of intent, Mrs Çiller promised policies that could only gladden the IMF's heart: spending controls, a clamp on public sector wage claims, public sector price increases and restrictions on central bank lending to the Treasury. The government also imposed a range of one-off taxes to help close the hudget deficit of 12 per cent of GNP.

Ibca, the London-based rating agency, commented: "The projected tightening in policy is worth more than 10 per cent of national income over just nine months. This is one of the most severe fiscal packages ever imposed on an economy in such a short period of time."

The government now says it has met its principal targets of lowering inflation (expected to drop to 20 per cent at annual rate by December), redressing external imbalances (the current account was $1.1bn in surplus by July) and rebuilding central bank reserves (up to $7bn in October).

Mr Yaman Törüner, central bank governor, says triumphantly: "All the IMF figures are met. We are the best performing country the IMF has ever met."

However, sceptics are not convinced. One foreign economist says: "Çiller's package was comprehensive, hut tha thing that concerned outsiders was that they were not very front-loaded. There were too many announcements."

The key difficulty is dealing with the gaping public sector deficit, tbe central cause of Turkey's external imbalance and inflation. The 1995 budget forecasts a deficit only one-quarter the size of this year's. Few independent economists think the government will hit this target. No government since 1980 has ever come near to meeting its budget targets. Ibca calls this "a breathtaking record of fiscal incontinence".

Economists complain that Mrs Çiller has relied on tco many one-off tax and spending measures and is too optimistic in her 1995 tax and growth assumptions. Furthermore, elections are looming, and she will certainly be tempted to try and spend her way to victory.

Inflation and interest rates will not fall until the government stops overspending. Interest charges already consume one-third of the government's $38bn annual budget – the same as its wage bill. Mrs Çiller's attempt last year to drive sbort term-rates down unilaterally sparked this year's financial crash. She decided to print money instead of accepting the bond market's high price for refinancing maturing government debt.

Now, the central bank's tight money policy is keeping real interest rates at punishingly high levels. In October, real interest rates were as high as 40 per cent a year.

Upbeat as always, Mr Törüner says: "We want to have a very stable monetary policy. After [any crisis] it is normal for there to be some fluctuations, but [with time] these fluctuations will get smaller and smaller."

Even Mrs Çiller's few structural changes smack of vacillation. Sbe restricted central bank lending to tha government, but not too much. This year, for instance, the central bank can lend the Treasury the equivalent of 15 per cent of the budget. Lending must fall by three percentage points a year until ending in 2000. However, Mr Törüner says he is not lending to the government at the moment.

Economists complain that Mrs Çiller has relied on too many one-off tax and spending measures

The government has made little progress in talks with the World Bank, which it asked in April to support public sector reform. A World Bank official says the main objective is to "improve macro-economic management, witb amphasis on privatisation, social security [system reform] and revenues, and then on project lending to emphasise health, education, urban infrastructure and snpporting transformation of the economy."

Mrs Çiller is shrinking from reforms that would strike at Turkey's patronage-driven political system. Mr Osman Birsen, the technocratic assistant treasury secretary, says frankly: "Adjustment will require political determination, and this process has only just started."

Privatisation bas split tbe cabinet, where partners in the unstable right-left coalition haggled for months over draft legislation to go before parliament. However, privatisation looks inevitahle, simply because the state companies' deficits are unsustainahle. The only question is whetber it will be carried out by this government or after general elections to be held hy November 1996.

The government may be slow at public sector reform, but it is making good progress in tax reform. It has reduced tax exemptions, tightened up on enforcement and reduced corporate tax rates to 25 per cent from 46 per cent. Next year, for the first time, Turks will he given individual tax numbers and the tax authority fully computerised.

Mucb still needs to be done. Turkey's tax burden of 20 per cent of GNP (excluding social security contributions) is the lowest of any OECD country, and is even ligbter if one allows for the large underground economy. And tbe country is moving too slowly to reform tbe bewildering array of incentives, loans at negative real interest rates, duty exemptions and subsidies to business. The World Bank says these supports are indiscriminately accessible and poorly targeted.

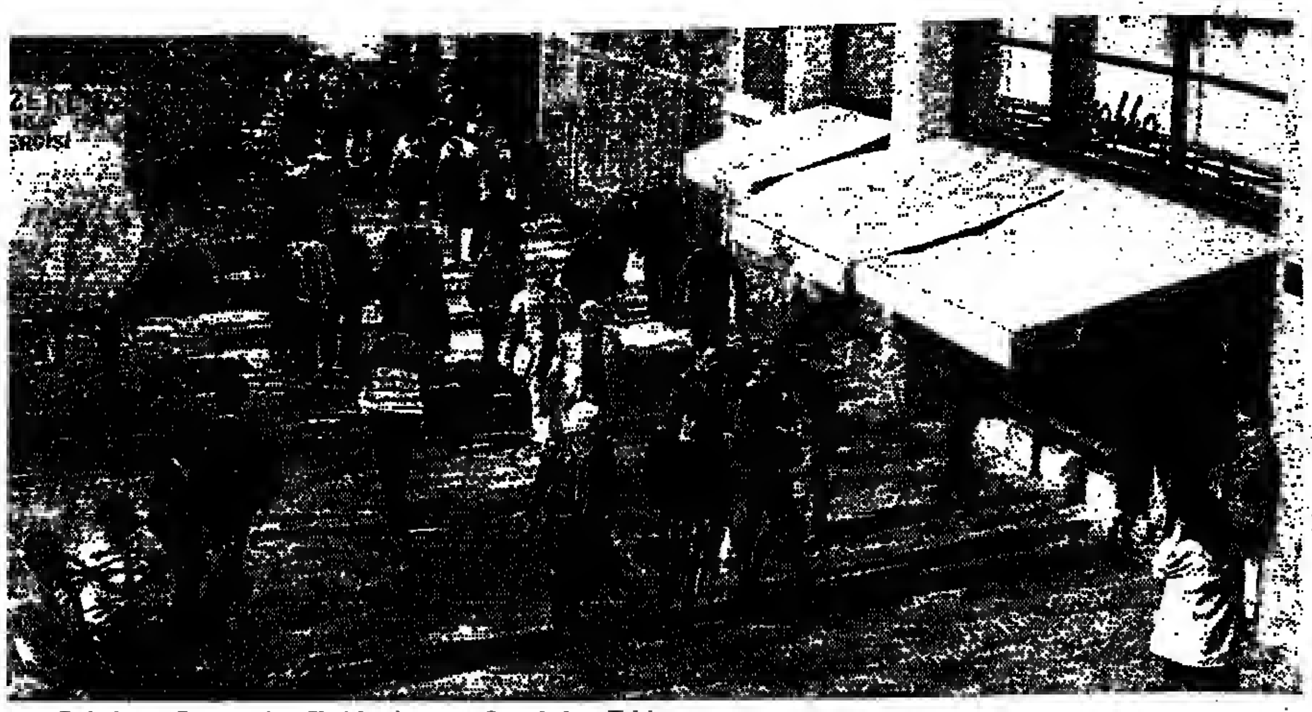
Turkey's economic prohlems are not overwbelming. It has a flexible, diversified and energetic private sector. Its fundamental problems are political: retrograde politicians and their hunger for patronage are preventing far-reaching reform.


Under pressure: Mrs Çiller's fiscal package has provoked concern

Turkey: macro-economic data

	1994	1993	1992
GNP ($bn)	na	175.61	155.66
GNP growth (% change) over previous period	-4.2*	7.60	7.30
Population	61.2m	59.9m	58.6m
GNP per capita ($)	n.a.	2,931	2,655
Public sector borrowing requirament (% of GNP)	10.3†	11.9	10.9
Consumer prices (change % over previous period	67.2‡	66.1	70.1
Exports ($bn)	7.81*	15.61	14.89
Imports ($bn)	10.43*	29.77	23.08
Balance ($bn)	-2.62*	-14.16	-8.19
Current account ($bn)	0.30*	-6.38	-0.94
Capital account ($bn)	-1.65	8.96	3.65
External debt ($bn)	67.25§	67.36	55.59
Exchange rate (average Turkish lira/$ rate for period)	25,108♠	10,986	6,887.5

*Jan-June; †First quarter, programmed; ‡Jan-Aug; §First quarter, provisional; ♠Second quarter
Source: Central Bank of Turkey


Many Turks have a European-type lifestyle, observes a Commission official

Europe: customs union is proving a slow process

Delay will not hamper trade

The long countdown to customs union between Turkey and the European Union is entering a final, decisive stage. The two have set a deadline of January 1, 1996, to eliminate nearly all trade barriers between them – 30 years after talks first began.

Turkey's invasion of Cyprus and its 1980 military coup halted progress. Return to civilian rule and co-operation in the 1990-1 Gulf War revived negotiations.

Many obstacles remain. Turkey's parliament is slow in enacting European legislation, especially competition and intellectual-property laws. Brussels opposes Turkey's demands for participation in EU decision-making processes. The European parliament may withhold ratification in protest at Turkey's bad human rights record.

However, trade seems certain to continue growing. Over half Turkey's exports go to the EU, which supplies just under half its imports. Turkey is the EU's tenth largest trade partner.

European companies invested $8.16bn in Turkey in 1980-93, two-thirds of total foreign direct investment.

Although Europe scrapped trade barriers for Turkish goods 20 years ago – only agricultural products and textiles suffer significant limitations – Turkey still levies tariffs on European imports. Its average weighted protection against EU products is 12.8 per cent, compared with 17.2 per cent for third countries.

The European parliament may withhold ratification in protest over Turkey's human rights record

European companies therefore stand to gain most from customs union. A European Commission official says: "This is a fast-growing market. About 15-20m Turks have a European-type lifestyle. This is a great market for European producers."

He also argues that Turkey will benefit because "customs unions always increase trade. There will be more investment, co-operation, joint ventures, marketing alliances, more research and development."

Customs union should also close what he calls Turkey's "very big familiarity gap" with Europe. He says: "Turkey feels unloved, unwanted. Political, social, economic [ties] that come with customs union will have great impact."

Many Turkish businesses feel they have little to fear from European competition, because productivity in many industries – textiles, white goods, consumer electronics – is already high.

Still, all will feel the pressure from Europe's larger, more sophisticated and better-run companies. Sectors with the most trade protection will suffer the most. The car industry, with a hefty 39-106 per cent tariff barrier, is a prime candidate for opt-out clauses in the customs union negotiations.

Mr Ali Tigrel, ambassador-at-large for European affairs, says he will push for "derogation" privileges for certain industries, but will not say which. Brussels, meanwhile, has already warned that it will limit Turkish access to its textile market unless Ankara abolishes tariffs and adopts its competition laws.

Turkey hopes customs union will lead to full EU membership. It has already applied twice for membership, without success. Mr Tigrel says: "Customs union is the cement of the European Union." Turkey also hopes to unlock large aid transfers from Brussels, blocked by Greece since it joined the EU.

But even Mr Tigrel recognises that Turkey's "increasing element of political uncertainty clouds everything and makes my life more difficult." However, he claims that parliament's delay in approving laws is not a critical obstacle to customs union, as long as it adopts essential competition rules and shows it is making progress in adopting other laws.

Privatisation: public opinion is moving in its favour

Anxiety over losses and graft

Mr Engin Civan may go down in Turkish history as the man who made privatisation possible.

Mr Civan, a former state bank president, was shot and wounded in September. He admitted gangsters were trying to recover a $5m bribe because he had been sacked before he could authorise their loan. His tale of corruption, power politics and organised crime gripped the country for weeks.

People always suspected state companies were corrupt, inefficient and politicised. But Mr Civan's revelations accelerated a gradual shift in public opinion in favour of privatisation.

The state's industrial giants are formidable lossmakers. Last year, they contributed one-fifth of the public sector borrowing requirement of $29.72bn. Next year, according to the government's optimistic draft budget, their losses will shrink to $1bn.

State companies control or dominate the telecommunications, airline, iron and steel, mining, petroleum and electric power industries. The state owns the biggest banks. State companies employ 863,000 people, about half of them surplus to requirements.

The first privatisation programme was announced in 1984. But no government was ever interested in reducing the public sector. Privatisation has raised just $2.2bn in 10 years. Three-quarters came from sales of minority stakes in private companies. Only $600m were "real" privatisations, mostly in peripheral sectors.

The companies' losses, their inefficiency – water is rationed in Istanbul, power-cuts are frequent – and the corruption oozing out of them make privatisation seem only a matter of time.

The government is tightening controls on its companies, now subject to commercial law

In January, the prime minister, Mrs Tansu Çiller, recruited Tezcan Yaramanci from the private sector as her new privatisation supremo. He says: "I believe today that Turkey has advanced more in the last 10 months than in the last 10 years."

But privatisation has split the government. Mrs Çiller's junior coalition partner, the social democratic SHP party, blocked privatisation until her DYP party approved a political liberalisation package.

Earlier this year, Mrs Çiller tried to impose privatisation by decree. The SHP appealed to the constitutional court, which ruled that the government must win parliamentary approval first. She only won the SHP's grudging support in October. But even MPs from her own party and the conservative opposition Motherland party, as well as SHP members, threaten to oppose the bill.

Mr Yaramanci expected to raise $2.5bn from privatisation in 1994. His 1995 target is $9-12bn. He insists he can still raise $1.5bn this year: "From the organisational point of view, privatisation is ready to go. Right now there are two or three companies ready. International investment circles have been contacted. There is demand for these companies."

However, even economy minister Aykon Dogan considers these targets far too high.

Etibank and Sümerbank, two small banks, would be first on the block. Fifteen per cent of privatisation revenues will go to a severance-pay fund for state company employees who lose their jobs.

Big companies, such as the telephone system or the national airline THY, would probably find ready buyers. But others will be a very hard sell. The Erdemir steel works or state banks need lots of costly restructuring.

The government has started tightening controls on its companies. They are now subject to commercial law. In theory, they can be declared bankrupt. Tedaş, the electricity distributor, is trying to put itself on a profit-first footing. Mr Mehmet Bozdemir, Tedaş general manager, says: "before, the state came first. Now profit comes first."

Mr Yaramanci says he will break companies up into individual business units prior to privatisation. But "restructuring [for] productivity increases is left to the private sector after privatisation."

The proposed regulatory systems looks messy. The government hopes to sell 49 per cent of the telephone company to strategic investors who would hold management control. The government, using its 51 per cent stake, would retain a regulatory role. It plans to privatise the electricity generation industry, but retain a distribution monopoly. This is a recipe for confusion and conflict, which is unlikely to attract many investors.

مكتبة من الأصل

Banking: the credit-rating crisis has exposed the system's weakness

Good-bye to easy money

Bankers are not happy. Most expect profits to fall in real terms, for the first time in recent memory. Mr Erol Sabanci, vice-chairman of Akbank, part of the Sabanci business empire and one of Turkey's biggest banks, reckons 1994 pretax income will slide 43 per cent to $184.2m.

But after years making easy money, bankers are in no position to complain. They have piled up profits by playing a rudimentary arbitrage game stacked in their favour.

Banks used Turkey's once-high credit rating to borrow cheaply overseas, and used the money to speculate in fast-moving financial markets or to lend to the government. Not only did the government pay high interest rates, it also allowed the Turkish lira to appreciate, handing banks a 40 per cent margin.

So it is hardly surprising that net profits at Turkey's 10 biggest banks rose 41 per cent in dollar terms last year, to the equivalent of $806.2m. Assets rose to $47.44bn from $44.33bn.

But the game was up in the spring, when Turkey's credit rating dropped below investment grade, and currency and financial markets collapsed. Luckily, only three small banks crashed. But the crisis laid bare the system's weaknesses: over-reliance on trading, narrow local deposit bases, unadventurous lending and investment banking arms.

Although bank profits have taken a heavy hit, the government's insatiable appetite for money is keeping interest rates sky high. In May, interbank rates reached Latin American heights of 1,000 per cent a year. Even when rates settled down to 85 per cent in the autumn, they were still equivalent to a real 40 per cent as inflation fell.

Clearly, banking can still be good business as long as executives are careful about their risks. Banks with a strong local deposit base have lower cost of funds and are less exposed to currency risk.

Mr Sabanci says: "Akbank's main source of funding is local currency. Our [foreign currency] positions are 10 per cent of liabilities. Compared with some banks with 90 per cent, this is a tremendous difference."

He says Akbank's strengths are a sound balance sheet, a healthy loan book and conservative management. Indeed, even its 38 per cent leap in profit last year looks hesitant compared with some competitors' gains of 80 per cent.

The big Turkish banks are impressively manoeuvrable. They have invested in technology whila cutting jobs and branches. They have good, professional management teams, even though ownership is retained by powerful families. The big banks exceed international capital standards. Many blue-chip banks also own big industrial holdings. Depending on one's point of view, these are either a source of weakness or a source of strength.

Işbank, the largest non-state bank, has stakes in 84 companies, including control of Şişe Çam, Turkey's leading glass manufacturer. Garanti Bankasi, part of the Doguş industrial conglomerate, also holds stakes in group companies. Iktisat Bankasi, a highly-regarded medium-sized bank, has holdings in television, newspapers and manufacturing companies.

Akbank is a minority partner in Sabanci group joint ventures with multinationals such as Toyota, Philip Morris and Ladbroke's. It has a leasing company with BNP and Dresdner Bank. These holdings are usually booked at cost, not market, values. Mr Sabanci argues that these under-valued equity stakes represent strong hiddeo reserves. He says that although Akbank's equity holdings are booked at $80m, their market value is now about $800m.

But analysts complain that banks receive insufficient dividends on these holdings. Akbank's 1993 gains from participations and investments was just $19.5m. But Mr Sabanci says the capital value of these equity stakes is growing.

Furthermore, ownership of banks such as Akbank or Garanti lies with holding companies that also own big industrial companies. Problems on the industrial side could weaken the banking arm and vice versa. Analysts complain that, while small banks play too fast and loose, big ones play it too safe. Akbank, they say, should boost profits by being less risk-averse. Garanti has been slow to develop retail products like consumer finance, credit cards and unit trusts.

Garanti aims to grow by targeting smaller, more profitable, upscale segments. Its share of Visa and American Express credit-card operations, for instance, is bigger than its share of credit cards in circulation.

Some cassandras say banks are less profitable than they seem. Mr Selçuk Abaç, chairman of Istanbul's IBAR bank rating agency, says inflation overstates profits and is corroding the system's capital base. He says banks "absolutely need to raise profits and productivity", both to adjust for the risky operating environment and to rebuild capital.

Whatever the private banking system's shortcomings, they are nothing compared with the problems of the state-owned banks.

Ms Arzu Türksoy, an analyst at Global Securities, an Istanbul brokerage, says: "State banks make inefficient use of their huge assets and have very poor management. Profit is never considered the first variable. They do not operate as banks. They make symbolic returns from state sector."

Their accounts are not audited to international standards. They do not provision for loans to state enterprises and co-operatives, many of which should be classified as non-performing.

Even so, nearly all the state banks still perform dreadfully. The four largest last year raised assets by 4.5 per cent, but net income fell 6 per cent in dollar terms. In comparison, the six biggest private banks raised assets 10 per cent and net income 41 per cent.

The state banks' size and inefficiency distorts the banking system, raising costs for private borrowers. Not everyone complains, though. Mr Erol Aksoy, Iktisat's owner, says bluntly: "Spreads are so nice because of the state banks. With a bit of luck and good management you can make a killing."

The private banks' fortunes should revive in 1995 if, as expected, the economy bounces back. However, small banks are perceived as risky and will probably continue losing depositors to bigger, safer competitors. The large banks with their lower costs will be the best-positioned to benefit from recovery.

That said, the day will come when the state will stop lining the pockets of Turkey's bankers. In other high-inflation countries, stabilisation brings a big drop in income and a painful transition period as bankers hit the slow lane of corporate finance and consumer lending.

Turkey's top banks

	Assets ($bn)			Net income ($m)		
	1993	1992	Change %	1993	1992	Change %
Ziraat*	12.29	11.68	5	741.2	747.4	-1
Emlabank*	6.40	6.11	5	64.2	44.3	45
Is Bank	5.46	5.29	3	219.0	121.6	80
Yapi	4.86	4.01	21	85.4	73.5	16
Akbank	3.92	3.67	7	238.4	179.6	33
Halk*	3.74	3.28	14	22.4	45.0	-50
Vakif*	3.13	3.36	-7	9.0	55.7	-84
Pamuk	2.96	2.89	3	35.9	38.1	-6
Garanti	2.65	2.40	11	207.6	146.1	42
Turkbank	2.04	1.63	25	19.8	13.5	46
Total:	**47.44**	**44.33**	**7**	**1,643.0**	**1,464.8**	**12**

*State banks

Source: bank annual reports and IBAR

Investment bankers' hour

Investment banking in Turkey is still in its infancy. *Capital markets are primitive.* Mergers and acquisition activity is limited, and the scope for advisers even more so. Treasury operations are unsophisticated, given the absence of complex financial instruments.

Even so, demand for investment banking services is bound to increase as the economy, companies and the financial system develop.

Already, banks and brokerages are gearing up for a big fight in investment banking. Garanti Bankasi, Turkey's most profitable bank, bought into the investment banking business as far back as 1992 when it acquired Tasarruf Kredi Bank and renamed it Garanti Investment Bank. This year it moved its broking arm to the investment bank to further strengthen its presence in the market.

Dormant mergers-and-acquisitions business may also pick up with the approach of customs union in 1996 with the European Union. Istanbul bankers think Europe-based companies will want a greater presence in Turkey, just as local companies may have to exit competitive sectors.

Initial public offerings are advancing steadily, despite the stock market's poor health. The trouble is that deals are usually small by international standards, and many companies avoid using banks altogether. Last year, there were 18 initial public offerings. There were 13 by October this year, with flotations varying from under $2.0m to nearly $50m.

Privatisation will mark tha beginning of megabuck investment banking deals in Turkey. It may still be a distant prospect, but bankers are confident that privatisation will generate millions in fees, and transform narrow capital markats, enabling bigger and more sophisticated deals to follow. Some of the biggest companies in Turkey – the telephone network and national electricity utility, for instance – ara on the government's privatisation list.

A bigger local market would prevent even relatively modest deals migrating offshore, especially to New York'a ADR market.

The advent of private funding for infrastructure projects will also require capital market backing. Although the government has talked for years abont introducing build-operate-transfer rules for projects like dams, roads and power stations, not a single one has come off the drawing board.

Nonetheless, the bankrupt state will eventually have to cede big-ticket projects to the private sector. Electricity consumption is growing by 10-12 per cent a year.

BOT deals will probably require a blend of conventional project lending with more innovative investment banking products.

The downside is that high-tech investment banking is a difficult, fast-moving business in which even the biggest local participants will be overshadowed by the New York- and London-based giants. They will have to scramble for the crumbs when it comes to handling big projects.

The stock market has halved in dollar terms this year

A superficial culture

Istanbul bas everything an emerging-market investor could want: exotic location, loose regnlation and boom-bust price shifts. It is not unusual for average prices to move by 4-5 per cent in a day.

It also has all the usual disadvantages: sharp practices, poor disclosure and shaky accounting rnles. Liquidity is also a prohlem with daily turnover of only $125-160m. Just 10 companies account for over half of turnover. What goes up also come down with a bang: the market index has halved in dollar terms this year, after crashing heavily in April.

Turkey's great attractioo is the earnings potential of some companies. Migros, the supermarket chain owned by the Koç conglomerate, had a net 3 per cent margin on sales last year – roughly six times more tban a comparable company in a mature market. Çiment Aş, a cement company, bad a 1993 net margin of 29 per cent.

Last year, big private banks lifted earnings by an average 40 per cent, although profits will fall sharply this year.

Tbe stock market is just nine years old, so it is understandable that Turkey shonld have a superficial equity culture.

> Although more companies are using the market to raise capital, Istanbul still cannot handle big flotations

Mr Albert Nekimken, head of research at hrokerage Global Securities, says: "Even listed companies resist giving information to analysts. They don't care what the price of their sbares is. Companies need edncation. We are doing missionary work."

Although more companies are using the market to raise capital, Istanbul still cannot bandle big flotations. Large companies prefer ADR listings in the US, both for prestige reasons and because the local market is too narrow. Brokers hope privatisation will change this, as big atate companies come to the market.

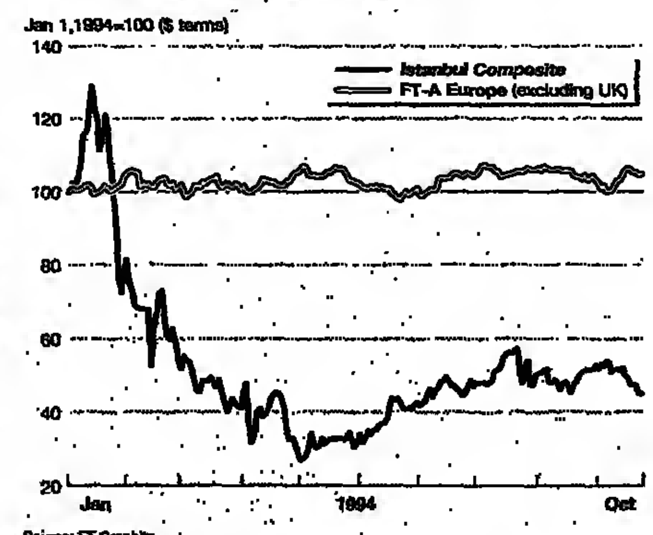
Istanbul should also become more mature as international investors increase tbeir presence. According to Mr Serhat Gürleyen, head of research at the broking arm of TEB, an Istanbnl bank, foreigners hold about 20-25 per cent of the market's free float. Only about 17 per cent of the $21.28bn market capitalisation is traded, giving foraign participants a mere $904.4m exposure to Turkey.

Tbe Istanbnl Stock Exchange is modernising its operations. Electronic trading, cnrrently used only for tbe most liquid companies, will cover all shares. Settlement and custody will become fully electronic.

It is thinking of introducing a wbolesale market. It also wants to link up with the even newer markets of the former Soviet central Asian republics. It has applied to the government for offshore status to become a regional financial centre.

Commissions are deregulated, varying between 0.3-0.7 per cent. There is no restriction on holdings by foreigners, although they do not bave voting rights. Foreigners pay no tax. Although highly unstable, the lira is fully convertible. There are no exchange controls.

How the market has moved



Source: FT Graphite

Business: the two dominant corporate giants face fresh challenges

Koç and Sabanci adapt to competition and new rules

Two corporate logos adorn nearly every street corner, shop and office building in Turkey.

One is the red ram's head emblem of the Koç business empire. The other, the big white and blue letters SA, the first two letters of the Sabanci name.

These two giants have dominated the Turkish corporate scene for over a generation, with interests from chocolates to cars to banking to textiles. Together their annual revenues of $20.73bn are equivalent to 12 per cent of Turkey's GDP.

Both face similar challenges as liberalisation and competition intensify. The principal factors in their success – trade protection, strong political connections and firm management – no longer apply as they once did.

Both groups were built up by poor men at the dawn of Turkey's industrialisation 70 years ago and are still controlled by their founding families. Haci Omer Sabanci began working at 14 and first went into business in 1932. The Sabanci family remains the group's principal shareholder and the founder's five sons now run the company.

Vehbi Koç, 94, still comes to the office nearly every day. His company's headquarters in a converted Ottoman palace controls a far-flung empire with annual sales of $14.45bn.

The two became the partners of choice for multinationals setting up business in Turkey, further broadening their activities, profits and business skills as they learnt from the foreigners.

Koç's first alliance came in 1928 when it started distributing Ford cars. Now it makes Ford Escorts and Orions as well as Fiat cars under licence. Sabanci has joint ventures with the likes of Toyota, Philip Morris and Belgian steelmaker Bekaert.

These companies are highly profitable: Koç's group pretax earnings rose 55 per cent in dollar terms to $1.3bn last year. Sabanci advanced far more slowly, rising 3 per cent to $633m before tax, giving a 10 per cent return on revenues. Analysts warn that their complex pattern of interlocking shareholdings and the vagaries of inflation accounting make it hard to monitor the groups' true financial situation.

The controlling families realise change is needed. In January, Koç introduced a flatter management structure, with a headquarters staff of only 200, that granted subsidiaries greater freedom. Eleven divisional presidents supervise the group's 106 companies, with final responsibility in the hands of a single CEO, Inan Kiraç, a professional manager.

Mr Kutsan Çlebican, Koç's finance vice-president, says "We have very strong financial controls, but have a general policy of leaving companies alone. We approve their budget and provide targets and indicate expected inflation and exchange rates."

> As the capital cost of new investment rises, outside financing will become more important

Although top managers are increasingly young, foreign-educated MBAs, these groups have acquired a civil service atmosphere. Koç executives tend to spend all their working lives in the company. Very few are recruited from other companies. It does recruit some senior executives, such as Mr Çlebican, from the top ranks of the finance ministry.

Koç even likes making five-year plans. It abandoned five-year planning this year because of high inflation, but is back at work on a new one.

Instability is undoubtedly bad for business – car sales have fallen by a third this year, forcing Koç's Tofaş car plant to halt production for six weeks. Although executives insist that they are not postponing investments, analysts say capacity expansion at Tofaş has been scaled back.

Last year, Koç raised fixed assets and investments 16 per cent to $1.68bn. But Sabanci's investments dropped nearly a third in dollar terms to $385.3m.

Diversification is out of fashion these days. Sabanci claims it is focusing its business more tightly, but its five core businesses still cover all the main segments of Turkish industry.

Mr Erol Sabanci, a group director, says: "The industrial side is diversified in 50 industrial sectors, so the risks from failure are reduced." He adds that even apparently unrelated companies provide synergies: the textile companies produce cord for the tyre company which supplies the car company.

Despite its wide spread of businesses, Koç gets 75 per cent of its revenues from cars, white goods and consumer electronics. Executives argue that their dominant share in these sectors is a crucial defence to growing foreign competition. Divestment from unrelated companies may come with time.

In the past, protection provided companies with high margins, which allowed them to fuel expansion with retained earnings, keeping borrowing to a minimum. However, import protection is declining, so margins must fall. Furthermore, the capital cost of new investment is rising. Outside financing will become an increasingly important issue.

Koç is already using the stock exchange to raise capital. Mr Çlebican says: "It is the founder's policy that when a company is financially sound it should offer shares to the public, because there is not a long future for family companies. All the money [from share sales] is reinvested in the companies."

Koç's Arçelik white goods company and its Tofaş car unit are both quoted on the Istanbul Stock Exchange. It has recently listed two more subsidiaries, its Bekoteknik consumer electronics arm and Tat, a big tomato processor.

But for the time being, neither group is even thinking of giving up majority stakes. Most listed companies have just 15-20 per cent of their shares in the market. Both groups still have plenty of headroom to raise debt. Koç, for instance has only $161.7m in long term debt.

The dominance of the two companies is gradually diminishing as new participants appear on the scene. The Doguş group, for instance, began life as a civil engineering company. It has metamorphosed into a banking group with a growing portfolio of other businesses like food, television, retailing and tourism. Ayhan Şahenk, aged 65, founded Doguş in 1951 and is still its chairman.

Last year it reported combined revenues of $1.38bn, and a net profit margin of 17.5 per cent.

Mr Zekeriya Yildirim, vice-chairman says Doguş aims to become a "well-positioned consumer, service-oriented group." He says this should make it less vulnerable to business cycles.

Inevitably, Doguş has also adopted a decentralised management structure. Mr Yildirim says: "Each subsidiary stands alone, managed by their own corporate bodies." The holding company handles strategic planning, financial controls and head office services. And, like Sabanci, it insists that its financial and non-financial companies are divided by Chinese walls.

Doguş also insists that what looks like an opportunistic mixed bag of unrelated businesses is really a balance of inward-looking consumer businesses and outward-looking tourism and overseas construction companies.

Turkey's giants grew big and strong in a protected environment. They must learn new skills to prosper in less forgiving conditions. Turkey's chaotic domestic economy is no help. But there is every sign that these blue chips will be around for a long time.

Toyota plant a springboard to Europe

Toyota's gleaming $400m new car plant outside Istanbul (*pictured above*), opened in mid-October, is much more than a prestige private investment project. It will radically reshape the country's car industry.

As well as raising Turkey's car production capacity by one-third, the new plant will boost its technological base and, some time in the future, become an export platform to the surrounding region and Europe.

Closer to home, the new facility will break the virtual duopoly that the Tofaş Fiat-Koç joint venture and Renault have enjoyed for 20 years.

Toyota's timing is unfortunate. Passenger car sales this year will fall by a third to 234,000, according to DRI World Car Industry Forecast, which does not expect output to recover to 1993 levels until 1997.

Nonetheless, Toyota's decision to invest in Turkey is an indication of the market's present and future importance. It is also a sign of confidence in local suppliers' ability to meet stringent quality standards. □

Work on the factory began in 1992 as a joint venture between Toyota and the Sabanci group. Toyota holds 40 per cent of the company, Mitsui 10 per cent and Sabanci, together with its Akbank affiliate, the remaining 50 per cent. Half the investment was funded with equity and the rest with long-term debt.

Toyota's arrival has shaken Tofaş out of its complacency. Tofaş claims 45 per cent of the local market, but is frequently criticised for its reliance on old Fiat models. It has hit back with the launch of new Fiat Tipo and Tempra models only months after their launch in Italy.

But Koç is right to worry about Toyota. According to its annual report, the car business represents half Koç's group annual turnover and pre-tax profit.

The challenge from Toyota is only the beginning. In 1996, customs union with the European Union is meant to come into force, exposing Tofaş to more competition.

David Tonge *reviews recent changes in commercial law*

Pressure on state bodies

September saw a significant change in commercial law in Turkey. For the first time, state institutions and enterprises can have their assets seized or subjected to attachment, meaning that judgments against them may now be more easily enforced.

Turkish industrialists argue that, with Turkey's state sector accounting for 33 per cent of manufacturing output, this change will force state institutions to improve their performance.

Mr Asil Başgöz, senior partner in the Istanbul office of White & Case, a leading international law firm, welcomes this step forward, as well as the way that, increasingly, legislation such as that governing the capital markets is prepared with the help of those who will be affected.

Foreign businessmen say that this was often not the case in the past. They also warn that legislation, even if subject to frequent change, has often lagged behind the needs of the market place. Those entering new areas such as franchising have had to rely on the way that the principle of freedom of contract is clearly established in Turkish contractual law. But when specific legislation is required, this often takes time to be introduced, as is currently the case where financial derivatives are concerned.

Turkish law is codified like continental European law, with commercial and family law based on the Swiss system, administrativa law on the French system, and criminal law oo Mussolini's criminal code. The basic legal structure is clear, with far more areas codified that in, say, Britain, where common law applies. Foreign investors are subject to specific protection under a 1954 law.

The basic legal structures are all in place and on the whole have worn well, despite the underlying shifts in the economy and the impact of inflation.

"The precedents established in the decisions made in the 37 years since the commercial code was introduced have played an important role in keeping the code fresh," according to Mr Mehmet Okur, partner on Okur & Okur, a Turkish law practice active with foreign companies.

However, Yased, the foreign investors' association, emphasises the foreign business community's concern at the lack of protection for intellectual property. There is no patent protection for pharmaceuticals, and attempts to introduce a new patent law have been dragging on for over a decade. Protection of trade marks is slightly improving, but service marks such as a hotel logo may not be protected. Where copyright is concerned, there has been progress in combating film and audio piracy, but not over books.

That said, there are grounds for expecting change. Turkey is under pressure from the European Union, which argues that the customs union due from the end of 1995 requires Turkey to match European practices. Further, as a signatory to the Marakkesh accord of the Uruguay Round of Gatt, once Turkey enters customs union with the EU, it is obliged to observe the Gatt provisions on intellectual property within one year of their entry into force. It is also under pressure from the US, which has put Turkey on its "priority watch list".

Other areas of concern include:

■ The fact that you must deliver possession of most movable assets in order to complete the pledge, which impedes the development of leasing and secured transactions.

■ The lack of a registration system for pledges and liens over movable assets.

■ Limitations of granting mortgages denominated in foreign exchange (which constitute an important protection for lenders in today's inflationary environment).

■ The limited opportunities for cross-examining witnesses in court – the system is run by judges, rather than adversarial.

However, except over matters of inheritance, Turks are generally less litigious than people in the US or even Europe. "Turks believe there are risks in life and business, and do not rush to blame others," comments Mr Başgöz.

Here, an important factor is the limited comfort many people expect from the legal process. As in many countries, procedures are costly and protracted, with hearings usually held at three-month intervals, and addressing, step by step, the issues involved, as Coca-Cola recently found to its cost when it sought to cancel a bottling agreement.

Turkey has acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, delays often occur in cross-border cases, particularly when proceedings are required against a high-profile Turkish national. The administrators of the UK company, Polly Peck, have found particular problems in exercising the rights given to them by British courts to act on behalf of the company's shareholders. Lawyers acting for the fugitive Asil Nadir have argued that such rights would not have been given under Turkish bankruptcy law.

Istanbul: signposts for the visitor

Look for discount at the new 5-stars

It may seem a perverse complaint, but older residents of Istanbul moan not at the proliferation of English in hotel and restaurant hoardings, but at the fact that foreign words are now spelled correctly.

A disappearing pleasure of Istanbul life is figuring out the names of establishments from a French transliterated into Turkish. Time was, it was *komilfo* (read "comme il faut") to take tea and pastries in *Markiz* (read "Marquise") before spending a night on the town at the *Foliberjer* (no prizes).

Nowadays, Istanbul sports any number of orthographically correct international chains, from McDonalds to the Mvenpick Hotel, designed to lull the international traveller.

There is some good in all this. The danger of a city with Istanbul's history and skyline being turned into the proverbial airport lounge remains remote. The new wave of 5-star hotels and an immediate glut of empty beds means that the executive traveller at least can hold out for a competitive corporate discount.

Location, too, is relatively important to a city where the traffic is designed to ensure you are least 20 minutes late for an appointment. A new Holiday Inn near the Ataky Marina is not on top of the airport, but near enough for an early morning flight. The Mvenpick is useful for anyone who needs to be near the new business district in Maslak on the upper road to the Bosphorus. The Hotel Merit Antique is in the historic city. Within the last five years, the Swiss Hotel (best health club), the Ciraan Palace (best Bosphorus views), the Conrad and the Hyatt (tennis court and good summer pool) have opened up in the more traditional commercial centre.

The other advantage of the grand hotel is that it provides an acceptable place to entertain. However anxious you may be for an authentic Turkish experience, your opposite number would almost certainly prefer to taken to the new Italian restaurant at the Hyatt or the Japanese restaurant at the Swiss. The dining-room of the Divan Hotel is still rated for Turkish cuisine. If you must see a belly dancer, then the Show Orientale at the Conrad's Manzara is as good a place as any.

Istanbul is desperately short of the good small hotel. However, with a little bit of nerve you can actually stay somewhere more exotic and still catch your flight home. Few businessman frequent the Hidiv Kasri (built as the Egyptian Khalif's summer palace) in Ubukln on the Asian side of city. It is, however, very near the exit of the second Bosphorus bridge. This is in turn makes it convenient both for the TEM peripheral highway to the airport and the industrial suburbs on the Ankara highway. The building itself is a model of art noveau, and is set in a remote garden over the Bosphorus. One day, the hotel's handsome dining-room will get the chef it deserves and be declared the best small hotel, not exactly in Europe, but just outside.

Another useful alternative is the Kariye Hotel, on the outskirts of the historic city. This gives it a straightish run to the airport without traversing the city traffic. It is a good base for someone who has a couple of hours to set aside for slightly more adventurous sight seeing. It is next door to St Saviour in Chora, a museum of wonderful Byzantine frescos and mosaics, as well as a short walk from the highly distinctive Mihrimah mosque – built in the 16th century by the architect Sinan for the daughter of Suleyman the Magnificent. Also nearby are the Theodosian city walls, including the one section that has not yet been destroyed by the current programme of restoration.

The Green House (Yesil Konak) is useful for first-time visitors who want to stay in the shadow of the Blue Mosque. It is run by the Turkish Touring Club, which has a policy of converting historical properties like the nearby Aya Sofia Pensions. There are now several private hotels in the same mould. The Ibrahim Pasha Hotel, on the Hippodrome Square, has small rooms, but a pleasant family-like atmosphere.

If you've seem the principal sights, then take the walk down past the classical Sokullu Mehmet Pasha Mosque to the 6th century Church of St Sergins and Bachus (also called the "small" Aya Sofia Mosque). Alternatively, stroll on along the Golden Horn from the wonderfully tiled Rustem Pasha Mosque to the Spice Market to pick up pistachios (even reasonably priced caviar) to take home.

A final travel up-date. The Turkish foreign ministry has decided to avenge itself on all those countries that impose visas for Turkish nationals. Until recently, British people had to queue for a visa before joining the line to get their passport stamp. Now they will be joined by Americans and most Europeans as well.

Andrew Finkel

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1994
Thursday November 3 1994

IN BRIEF

BCH tumbles 38% in first nine months

Pre-tax profits at Banco Central Hispano (BCH), the Spanish financial group, tumbled 37.6 per cent in the first nine months as a result of lower income from disposals and an increase in loan-loss provisions. Page 18

Cathay redesigns its image
Cathay Pacific, the Hong Kong-based carrier, this week unveiled the first of its new long-range Airbus A340s sporting a new livery. The redesign is meant to shift the airline's image from that of a British to an Asian airline. Page 21

Komatsu gains with public works projects
Komatsu, the Japanese maker of construction equipment, posted a 5 per cent increase in non-consolidated recurring profits for the first six months of fiscal year 1994-95, helped by strong demand from domestic public works projects. Page 21

YPF earnings advance 14%
Higher oil and gas prices helped YPF, Argentina's privatised oil group, increase net profits 14 per cent in the third quarter. Page 20

Microsoft in TV software project
Microsoft, the world's largest computer software company, aims to establish itself as the leading software supplier for interactive broadband networks that will provide interactive television and home PC services. Page 20

Aetna credit rating cut again
Aetna, the US insurer, suffered another cut in its credit rating this week, the latest in a rash of downgradings that has hit the US property/casualty insurance industry in the wake of growing concerns over pollution and asbestos liabilities. Page 20

Loan loss decline lifts SE-Banken
A big drop in loan losses enabled Skandinaviska Enskilda Banken to compensate for a weaker underlying performance in the first nine months. Page 18

BET rises with better margins
BET, the business services group, reported a 25 per cent increase in pre-tax profits for the six months to October 1, and said it was seeing signs of improvement in its profit margins. Page 23

Zeneca seeks US healthcare links
Zeneca, the UK drugs company is considering forming joint ventures with US healthcare suppliers as an alternative to the multi-billion dollar acquisitions made by rivals such as SmithKline Beecham. Page 24

BS attacks continental subsidies
British Steel has said that it is being put off investing in the UK and the rest of Europe by the subsidies allowed to competitors on the continent. Page 24

BAe cagey about further bids
British Aerospace yesterday refused to rule out making a revised offer for VSEL, the nuclear submarine maker. Mr Bob Bauman, chairman, told BAe shareholders that although it expected GEC's rival £532m ($840m) offer to be blocked on competition grounds, BAe reserved the right to increase its own bid. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
Hochtief	968	+	29	Fonc Lyon	630	+	35
Holzmann	855	+	18	Peugot	788	+	17
Falls				Taittinger	2620	+	130
Bayer	342.2	-	8.5	Falls			
Douglas Hld	465	-	24.5	Air Liquide	710	-	15
Lahmeyer	535	-	15	Cred Nat	374	-	10.5
RWE	454	-	7.5	Imetal	533	-	17
NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
Compaq	41½	+	1	Godo Steel	540	+	20
Dig Equip	30⅜	+	1	Nip Shinpan	780	+	23
Eli Lilly	63	+	1⅛	Falls			
Intel	63¼	+	1⅜	Chiyoda F&M	809	-	31
Lotus Dev	39½	+	1¼	Fuji F&M	650	-	25
Falls				Mitsui Oil	990	-	80
Quaker Oats	69⅝	-	6¼	Nishimatsu	991	-	39

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Falls			
BICC	361	+	13	Cray Elect	167½	-	7½
Bellway	208	+	14	Enterprise Oil	225	-	8
Computer People	225	+	17	First Leisure	247	-	8
Cooper (F)	93	+	3	Huntingdon Int	40	-	4
Cowie Group	228	+	8	ICI	774	-	25½
European Colour	85½	+	4	Irish Permanent	211	-	9
MR Data Mgmt	127	+	13	Legal & General	438	-	11
Meyer Int	393	+	13	Proteus Int	272	-	17
N Ireland Elect	377	+	13	Racal Elect	240	-	11
OEM	27	+	3				
Sainsbury (J)	411	+	12				
UDO Hldgs	208	+	8				

Two deals shake Italy's banks

Takeover and merger proposals could tighten banking ownership

By Robert Graham in Rome

The shape of Italian banking altered sharply yesterday following two moves which will tighten ownership of the industry in the private sector.

Following days of speculation within the industry, Ambroveneto is to be taken over by Banca Commerciale Italiana (Comit) to create the country's second-largest banking group while Credito Romagnolo (Rolo), the Bologna-based bank, plans to merge with the Cassa di Risparmio di Bologna group (Caer) the regional savings institution.

Rolo's merger plan is an attempt to fight off a hostile bid by the recently privatised Credito Italiano.

The Comit takeover of Ambroveneto has been market gossip for several days; but the Rolo-Caer merger came as a surprise. It would create Italy's 10th largest bank and comes less than a month after the two had abandoned talks on a smaller-scale merger.

Comit said it wanted to purchase 51 per cent of Ambroveneto but would aim initially for 29 per cent of the stock held by the core of controlling shareholders. It offered L7,000 per share for the 144.4m shares among these shareholders.

The defensive move by Rolo, controlled by a group of shareholders led by Mr Carlo De Benedetti, the Olivetti chairman, will have to overcome some complex legal considerations. These centred upon whether a merger could occur while a takeover bid was in progress.

The formal takeover by Credito Italiano cannot be launched until the prospectus has been approved by Consob, the stock exchange watchdog and this is unlikely to be complete until November 15. This could mean that the first extraordinary meeting of Rolo shareholders will hear not the takeover offer but the merger.

The L2,010bn ($1.3bn) Credito bid for 48.2 per cent of Rolo's stock valuing each share at L19,000 was launched last Wednesday, and was the largest in Italy since new takeover rules were introduced in 1992. It followed three weeks of heavy trading in Rolo shares which rose in price by more than 30 per cent.

Rolo's merger decison comes after the appointment of foreign advisors, Goldman Sachs and Morgan Stanley to assess the takeover. Rolo said the merger would be on the basis of 1.31 of its nominal L1,000 shares for every nominal L10,000 Caer share.

Rolo has a market capitalisation of L4,885bn. This is a premium of some L3,000 per share on that offered by Credito and applies to all the shares. Caer was valued at L2,397bn.

Caer is a holding company with 76.4 per cent of the Cassa di Risparmio di Bologna (Carisbo), the savings bank. Caer in turn is controlled, like most savings banks, by a foundation which has 93 per cent of the stock. If the merger were to go through, the foundation would possess 30 per cent of the new group, probably to be called Rolo-Cassa.

The two have discussed a limited merger for the past year. The deal collapsed partly because it was too narrow in scope and applied only to a share-swap with Carisbo. Faced with the threat of being gobbled up by Milan-based Credito, they appear to have quickly overcome these reservations and broadened the scope of the original merger.

Rolo called extraordinary shareholders meetings on December 19 and 20 to approve the defensive deal.

UK insurer seeks custodian for £40bn of assets

By Norma Cohen, Investments Correspondent

Prudential, the UK's largest life insurance company, has asked 10 leading international banks to bid for its global custody business which holds £40bn ($63bn) in UK and international securities. This follows the Pru's decision to act no longer as its own custodian for securities.

Mr David Hanson, a director at Prudential Portfolio Managers, said that the company is concerned that it will have to make significant investments in technology to maintain standards in its custody service.

The move is a part of a growing trend among international fund managers to focus activities on their core businesses and contract out administrative services. It would be the largest individual global custody contract to be awarded since the State of California sought tenders three years ago for its assets of $80bn.

Mr Hanson declined to name the banks which had been asked to present proposals. However, it is believed the list includes Chase Manhattan Bank, Citibank, Barclays Bank, Royal Bank of Scotland and Midland Bank. The banks, which have received the offer, have five weeks to prepare submissions.

Custody is the broad term which applies to the safe-keeping and record-keeping of funds. It generally includes the provision of cash management, foreign exchange facilities and securities lending. For leading international banks, the provision of custody – part of transactions banking – is a significant contributor to profits.

International banks have invested heavily in technology to improve the services they provide to fund management clients and the Pru would have to make similar investments, he said. "You would have to justify that spend, and that makes you pause. I'm not sure that custody is our business," he said. However, he said the in-house custody service was meeting present needs.

Prudential has been its own custodian for its UK domestic securities portfolio and has used three other banks for the custody of its UK gilts and non-domestic securities which are invested from London. It also manages £35bn in assets which are held with custodians in other regions. Prudential is not seeking new custodians for these funds.

Mr Hanson said changes in the way the Pru managed funds were partly responsible for the decision. In the past 10 years the Pru has begun to manage money from centres in North America, Australasia and the Far East, increasing its need for a global custodian. He added that the Pru had begun to retain custodians in each region.

Regulatory changes, including the introduction of a new accounting standard for custodians, the advent of the new Crest paperless share settlement system in London and the possibility of new UK regulations had made it consider its position.

BAT rises 21% on tobacco profits

By Roderick Oram, Consumer Industries Editor

A surge in tobacco profits in the US and recovery in Brazil helped BAT Industries overcome weakness in its general insurance business to report a 21 per cent increase in third-quarter pre-tax profits from £455m to £551m ($870m).

The stronger than forecast result pushed profits for the nine months ended September to £1.5bn, up 10 per cent from a year earlier. "There should be a worthwhile increase in our pre-tax profits for the year, enabling us to maintain our progressive dividend policy," Sir Patrick Sheehy, chairman, said.

BAT remained hopeful that a New York court would overturn attempts by the Federal Trade Commission to block its $1bn takeover of American Tobacco. The FTC will argue in the case beginning in New York on December 5 that the deal would reduce competition.

Tobacco trading profits for the nine months rose 13 per cent to £920m, excluding a £135m extraordinary gain a year earlier. Cigarette volumes rose by 5 per cent.

In the US, third-quarter profits at its Brown & Williamson subsidiary nearly trebled to £111m and doubled in the nine months to £228m. US profits were depressed last year by Philip Morris' savage price cutting on "Marlboro Friday".

Financial services contributed £674m to group trading profits, up 3 per cent from a year earlier. Eagle Star's profits fell £13m to £104m because of a sharp drop in investment returns to £99m. Conversely and domestic mortgage losses offset a £47m underwriting profit from UK personal lines. Worldwide premiums from general and life insurance were higher.

Farmers, BAT's US insurer, showed a marginal increase in profits to £391m with its life business improving in the quarter. BAT said Farmers claims from last year's San Francisco earthquake are expected to exceed earlier estimates of $1.35bn.

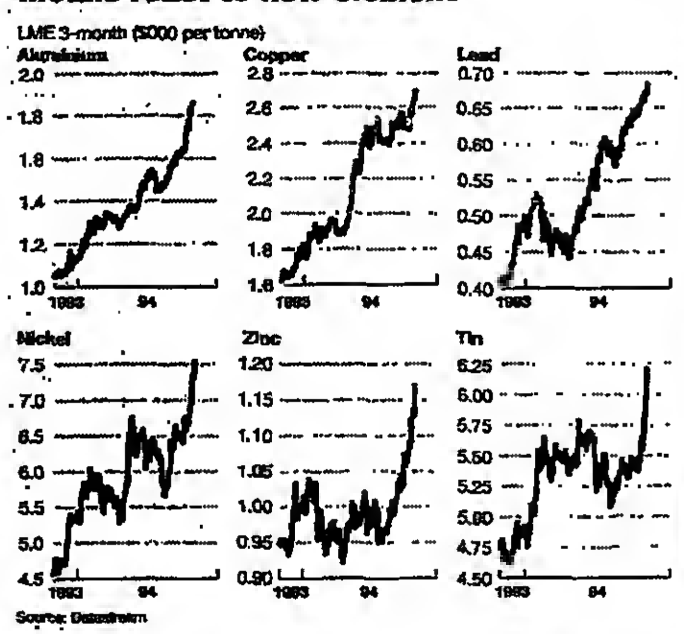
A 16 per cent increase in nine-months tax to £466m and an increase in minority interests to £83m from £71m left earnings per share ahead 6 per cent at 30.8p.

Lex, Page 16; BAT warns of challenge, Page 9

Kenneth Gooding looks back on a year of price rebounds

Funds fuel the fashion for metal

Metals react to new element



This week last year base metal prices were at an all-time low. Now prices have rebounded with aluminium and copper, the two most heavily-traded metals, – up by more than 70 per cent.

Analysts suggest that prices have run well ahead of what can be justified by fundamental factors such as the balance of supply and demand. Stocks remain high, twice the normal level in the case of aluminium.

But an important new element is fuelling price rises: the activity of banks and investment funds.

The funds are estimated to have put $16bn into metals so far this year. Meanwhile, the banks probably control 75 per cent of the London Metal Exchange stocks – traders say that as much as 85 per cent of the LME's aluminium stock is controlled by four or five banks.

Consumers are complaining, particularly the Japanese, the biggest users of metals markets. Mr Kenichi Watanabe, chairman of the Japan Aluminium Federation, said he had little faith in a market, such as the LME, which could be influenced by speculators.

Producers, many of whom were virtually suicidal a year ago, do not wholeheartedly welcome the new element in the metals markets either. High prices encourage substitution of other materials for metals and volatile prices frighten off potential metals users. Also, producers are likely to use the futures markets to lock in artificially high prices either to fund further development or to holster flagging operations, moves that might bloat future supply.

There is general concern among metal markets users about what happens next.

Many share the view of Mr Robin Adams, president of the Resource Strategies consultancy, who says the funds' involvement is "a fashion craze" and "financial fashions like real estate investment trusts, loans to Third World dictators and junk bonds, always end in tears".

Nevertheless, there are apparently good reasons for the banks and funds' involvement. Banks, for example, took advantage of cheap money to buy up stocks of physical metal.

Mr Chris Harris of Barclays Metals describes how the system worked: typically a bank borrowed one-year money at 5 per cent and used it to buy aluminium at $1,200 a tonne. The bank negotiated special terms with a warehouse to store the metal for one year at $52 a tonne. It sold the metal forward at $1,315 a tonne to gain a $3 a tonne profit. The volumes involved tended to be at least 250,000 tonnes per bank and two big players are believed to have tied up 800,000 tonnes each.

Investment managers, meanwhile, say interest in metals has boomed because clients wanted to reduce their portfolio risk through asset diversification and hedge against unexpected inflation. Commodities are being touted as a new asset class to compete with bonds, equities and property. But many analysts are sceptical. "Those three assets offer a running return in addition to the possible capital gain," says Mr Robert Davies, mining analyst at London stockbrokers, Smith New Court. "Interest, dividend and rental income from the three traditional asset classes give them a long-term value that is totally lacking in commodities. Base metals are mined to be consumed."

Commodities are being touted as a new asset class to compete with bonds, equities and property

He suggests the main reason for the funds' dive into metals was that "in an effort to achieve better returns than were possible on bonds and equities, some funds chased esoteric investments, including commodities".

Whatever the reason for their involvement, the funds have certainly had an impact on metals prices. During the last cyclical recovery, between 1984 and 1987, metal stocks fell for two years before prices started rising appreciably. This time prices started moving upwards six months *before* stocks began to fall.

Mr Nick Mason, analyst at the CRU International consultancy, says metals prices are now behaving more like financial instruments and anticipating or leading actual fundamental developments. "The important question for future metals prices is to what extend will the market anticipate the next major shift in the fundamentals. It would not be surprising if prices begin to reflect this expectation as early as the begining of next year."

The consensus is that the funds will unwind their positions in the metals markets gradually so as to avoid any self-inflicted damage to their profits. The hope is that this will take place coincidentally with a surge in metals demand in line with a global economic recovery.

Some suggest the funds' timing so far has been perfect and there are solid reasons underlying recent price rises. Mr Wiktor Bielski, metals analyst at Bain & Co, a Deutsche Bank subsidiary, points out that demand for aluminium, copper and nickel rose 7 per cent in the first half of 1994 against the same period last year, while lead and zinc demand was up by 4 per cent. Meanwhile, supplies have fallen along with exports from the former eastern bloc – apart from those of aluminium. Some producers have had to buy metal on the LME to cover commitments.

Ms Rhona O'Connell at T. Hoare & Co, London stockbrokers, admits there is always the possibility that the funds might all sell at once if the herd instinct takes over. However, "the diversity of fund participation and its *raison d'etre* is such that the funds will not kill the markets that they have helped to rejuvenate. The downside, though, is that the acceleration of supply caused by artificially high prices may also mean that the troughs will be at lower price levels than would otherwise had been the case. On this basis, one could argue that the funds have not actually helped the metals' cause at all."

Palladium booms. Page 26

Telekom wants UK, US banks

By Michael Lindemann in Bonn and Andrew Fisher in Frankfurt

The partial privatisation of Deutsche Telekom, expected to raise some DM15bn ($10bn) early in 1996, is likely to involve both US and UK banks in key roles because of the importance of both countries' stock markets, said Mr Helmut Ricke, the chief executive.

He did not say which investment bank the state-owned telecommunications company preferred for the main international role of global co-ordinator.

Goldman Sachs, the US investment bank, is among the most likely candidates to head the international placement, with Merrill Lynch, Salomon Brothers and Morgan Stanley also in the running, along with S.G. Warburg and Kleinwort Benson from the UK.

Deutsche Bank and Dresdner Bank are expected to be named the overall managers of the privatisation issue, which is likely to be split into regional consortiums to cover Germany, the rest of Europe, North America and the rest of the world.

Mr Ricke said it was important to give banks from the countries containing the world's most important stock exchanges a decisive say in the share placement. "That naturally applies to the US just as much as it does for Britain," he said. "I can't imagine that there would be any political considerations which would exclude a strong American partner. There is no disagreement between management and the owners [the government] in this matter."

A final decision is expected shortly, with banks standing to earn fees of some DM450m from the placement.

However, Mr Ricke said a decision would not be made this week. "We are under a certain amount of time pressure but we will need to evaluate the matter more carefully than that."

Deutsche Telekom invited 22 of the world's leading investment banks to a "beauty contest" in Bonn where they presented their respective bids to the company and the finance and postal ministries.

"They are all good," Mr Ricke said. "We now have to decide what their particular strengths are, what connections they might have to companies which we regard as our competitors."

BCH tumbles 38% at nine months

By Tom Burns in Madrid

Pre-tax profits at Banco Central Hispano (BCH), the Spanish financial group, tumbled 37.6 per cent to Pta45.3bn ($363m) at the nine-month stage, as a result of lower income from disposals and an increase in loan-loss provisions.

In contrast, BCH's core banking business improved sharply over the period as the group raised operating profit 17.5 per cent to Pta104.9bn.

Net consolidated profits fell 25.3 per cent to Pta32.3bn, by far the lowest among the leading domestic banks. This raises the prospect that BCH could be forced to reduce its dividend next year in order to strengthen its balance sheet.

The bank's future profitability was nevertheless underlined by an improved net interest income, which rose 4.1 per cent to Pta235.3bn over the nine months. This was in spite of the drop in interest rates and the resulting squeeze on margins.

Fees from commissions rose 6.9 per cent to Pta64.4bn and total net revenue advanced 5.5 per cent to Pta308.2bn.

The brighter outlook for BCH's pure banking operations was clouded by the continuing need to raise the coverage for its damaged loan portfolio.

This drain on resources was aggravated over the nine months by lower revenues from its treasury department and a fall in gains from disposals, which brought extraordinary income over the period down 35.3 per cent to Pta40.7bn.

BCH has put aside Pta106.6bn for provisions between January and September, 33.7 per cent more than last year.

This addresses the concerns of rating agencies, which have raised questions about the quality of BCH's assets and downgraded the banking group.

At the end of September BCH's coverage stood at 78.6 per cent, without taking mortgage-linked guarantees into account. This figure is comparable to that of rival domestic banks and up from its 69 per cent coverage in June.

BCH's non-performing loans represented 7 per cent of the group's total lending at the end of September - above the average for the sector, but 1 per cent down on the end of last year.

BCH realised Pta30.3bn between January and September through the recovery of non-performing loans, 57.4 per cent up on the same period last year.

BCH's return on assets stood at 0.40 and its return on equity at 7.8 per cent, figures well below the average for the sector in Spain.

Decline in loan losses boosts SE-Banken

By Christopher Brown-Humes in Stockholm

A big drop in loan losses enabled Skandinaviska Enskilda Banken to compensate for a weaker underlying performance in the first nine months and lift profits to SKr2.87bn ($400m) from SKr71m.

Sweden's leading commercial bank said the SKr2.8bn improvement included SKr789m in capital gains.

The main impact on the figures came from a 44 per cent cut in loan losses to SKr4.35bn.

Like other Swedish banks, SE-Banken has benefited from lower interest rates and economic recovery and put behind it the crisis that brought it large losses due to collapsing property values in 1992.

However, its result before loan losses was 7 per cent worse than a year ago at SKr7.23bn. Excluding this year's capital gains, the deterioration would have been 17 per cent.

The worse underlying performance reflected:

● A 10 per cent reduction in net interest income to SKr6.36bn, caused by a continued drop in lending volumes and narrower interest rate margins.

● A 12 per cent fall in commissions, fees and foreign exchange earnings to SKr4.37bn. This reflects lower activity in most financial markets.

● A 5 per cent rise in costs to SKr5.95bn.

Excluding capital gains, the group's third-quarter profit was SKr602m, compared with SKr755m in the second quarter and SKr730m in the first three months.

The bank said adjustments in the value of its investment portfolio were only taken into account at the year-end. It said the large rise in long-term interest rates this year meant the market value of its SKr82.4bn bond portfolio on September 30 was SKr963m lower than the acquisition value.

Akzo Nobel profit surges 35% on increased sales

By Ronald van de Krol in Amsterdam

Akzo Nobel, the Dutch chemicals group, said net profit before extraordinary items rose 34.7 per cent in the third quarter. This reflected increased sales volumes and reduced costs.

The sharp improvement was seen in most divisions, with even the weak fibres sector producing a small profit after losses a year earlier.

Net profit totalled Fl 322m ($192m) before extraordinary items, compared with Fl 239m a year earlier. Profits after extraordinary items jumped 75 per cent because the 1993 result was weighed down by Fl 55m in charges related to spinning off loss-making activities into joint ventures. There were no extraordinary items in the 1994 quarter.

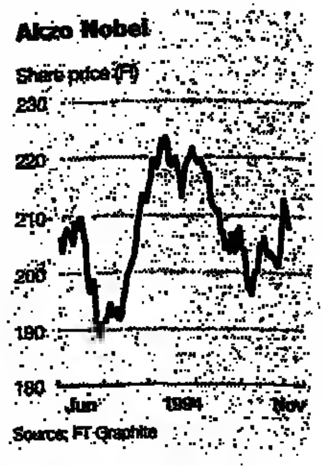
Mr Syb Bergsma, finance director, said the result confirmed expectations that second-half results in 1994 would be above those in 1993. The company held its interim dividend at Fl 1.50 a share.

Economic recovery in Europe, coupled with continued good business conditions in the US, lifted sales volumes 5 per cent. Average selling prices rose 2 per cent, but Akzo Nobel faced a similar rate of increase in its own raw material costs.

Turnover rose 4.3 per cent to Fl 5.42bn, and would have been higher but for the dollar's decline.

Operating profit rosa by Fl 129m to Fl 487m, producing a margin of 9.0 per cent against 6.9 per cent. "All groups contributed to this gain in operating income, both in absolute terms and as a percentage of sales," Mr Bergsma said.

Chemicals, coatings and pharmaceuticals posted increases in operating profit, while fibres produced a small operating profit of Fl 1m, compared with a loss of Fl 32m a year earlier.



The company, created in early 1994 through the acquisition of Sweden's Nobel Industries by Akzo of the Netherlands, was already reaping some synergy benefits, such as personnel cutbacks in Stockholm. But Bergsma said the bulk of the savings would come in 1995 and 1996, rather than mainly in 1995, as originally expected.

Christiania Bank posts sharp improvement

By Karen Fossli in Oslo

Christiania Bank, Norway's second-largest commercial bank, yesterday reported a sharp improvement in its nine-month results. The bank benefited from the continued upturn in Norway's economy, which has improved borrowers' ability to service loans.

Christiania said nine-month pre-tax profits nearly doubled to NKr1.12bn ($171m) from NKr628m in the same period last year, providing further evidence that Norwegian banks are emerging from a four-year crisis.

However, the group's operating profit, before loan losses, dropped NKr649m to NKr1.22bn.

Net interest income was unchanged at NKr2.33bn but non-interest income fell by NKr638m to NKr1.13bn due to reduced securities and foreign exchange gains.

Christiania said that a low level of interest rate exposure in the securities portfolio, helped limit bond losses in the third quarter to NKr10m.

In the nine-month period, securities gains fell sharply to NKr94m from NKr691m while foreign exchange gains and other non-interest income dropped NKr101m to NKr145m.

Nevertheless, the bank sharply reduced nine-month provisions for losses on loans and guarantees, to NKr100m from NKr1.24bn last year. Included in this year's figure is net reversals of NKr284m covering previous loss provisions.

Christiania said credit losses to the international fisheries industry were the most troubled sector of its loan portfolio.

In the third quarter the bank made provisions of NKr93m to cover fisheries loan losses, which for the nine-month period reached NKr334m. But combined gross non-performing and doubtful loans were reduced by 27 per cent to NKr11bn, while net non-performing loans were cut by 37 per cent to NKr3.6bn.

While expressing satisfaction with the results, Mr Borger Lenth, group managing director, warned there was still room for improvement.

The board may consider paying a dividend for 1994, but this is understood to be conditional on the bank's core capital reaching 6 per cent of risk-weighted assets at end-December, and on continued improvement in performance.

SBC forecasts drop in income

By Ian Rodger in Zurich

Swiss Bank Corporation, Switzerland's tbird largest bank, said annual consolidated net income for 1994 would be "clearly below" last year's record SFr1.37bn ($1.1bn).

SBC said operating income after nine months failed to match 1993's performance. The bank was echoing recent statements from Switzerland's two other large banks.

No figures were given, but the bank blamed the uncertainty in financial markets for most of the decline.

The trend of trading income was the same as in the first half of the year, when it tumbled 63 per cent. Income from securities trading picked up in the third quarter, but revenues from foreign exchange were down.

Net commission income, up 11 per cent in the first half, was down in the third quarter because of a fall in brokerage and syndication and placement fees.

Net interest income was higher than in the first and second quarters of this year due to a more favourable funding structure and falling interest provisions, but remained lower than in the third quarter of last year.

There was a further drop in bad loan provisions in the third quarter after the 53 per cent cut in the first half.

Total assets of the parent company at September 30 stood at SFr195.5bn, SFr13.3bn higher than at the end of last year. Growth in domestic lending and interbank business offset the adverse affect of the lower US dollar, and the acquisition of a Swiss regional bank added SFr4.7bn.

Sainsbury warns on planning restrictions

By Neil Buckley in London

J Sainsbury, the UK's largest grocery retailer, said yesterday that tougher government planning restrictions were starting to bite, and it expected to open only 12 new supermarkets next year, compared with plans for 20.

Speaking the day after the House of Commons environment committee called for tighter restrictions on out-of-town retail development, Mr David Sainsbury, chairman, reported a 8.5 per cent increase in interim pre-tax profits to £444.3m ($702m) from £417.2m. Last year's figure was restated to take account of new depreciation policies.

He said the group had won only one out of nine planning appeals this year, and spent £182m in the first half on new stores, compared with £209m in the same period last year.

"The difficulty of obtaining planning consent on appeal has become extreme," he said. "That has also led to greater difficulty in negotiating consent with local authorities. We do not foresee a reversal of this situation in the near future."

Spending on new UK superstores in the full year is expected to be little more than £300m. Twenty stores will be built this year, but the number will fall to 12 next year.

Sainsbury will spend more than £100m on refurbishing and extending older stores, and £150m on developing other divisions than its core UK supermarket chain. Both these activities will be given higher priority.

"We would prefer to invest in other opportunities rather than acquire sub-standard sites [for supermarkets] with lower returns," Mr Sainsbury said.

Sainsbury last month acquired 50 per cent of voting shares in Giant Food, the Washington DC-based supermarket group, and expects Giant's profits to outweigh financing costs this year. Its existing US business, Shaw's, increased operating profits 44 per cent to $36.3m.

With a strong performance from the DIY chain Homebase - where profits grew 34 per cent - the other divisions increased operating profits 26 per cent to £59.1m. That outpaced the 7.7 per cent rise in UK supermarket profits to £405m.

Total UK supermarket sales increased 7.7 per cent, of which 7.3 points came from new space. Like-for-like sales volumes, excluding new space, increased 1 per cent, with price deflation of 0.6 per cent.

The fall in prices was partly a result of Sainsbury's Essentials price-cutting campaign, which started a year ago, and reduced gross margins by 0.2 percentage points.

Lex, Page 16

Roussel Uclaf up 9.2% at FFr635m

By Andrew Jack in Paris

Roussel Uclaf, one of France's largest chemicals companies, yesterday reported net income up 9.2 per cent at FFr635m ($123.75m) for the first nine months of the year.

The company said comparable net income, excluding exceptional items, was FFr715m, a 52 per cent rise. This was after stripping out restructuring costs and capital gains from the transfer of its crop protection and environmental health activities.

The divisions will be transferred to part of the Hoechst group, the German chemicals company which owns 54 per cent of Roussel Uclaf's shares, at the end of this month.

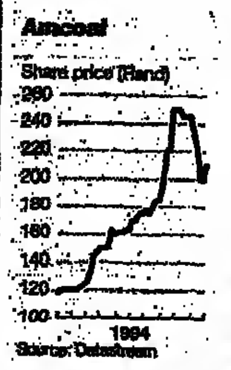
Sales for the period were up 13.8 per cent to FFr13.1bn, or up 2.3 per cent in comparable terms.

● Canal Plus, the French media and pay-TV company, reported revenues up 8.5 per cent to FFr6.85bn for the first nine months of the year, compared with the 1993 period.

هكذا من الأجل

NEWS DIGEST

Stronger exports lift Amcoal 33% after six months



An improved export performance helped Amcoal, the coal company in South Africa's Anglo American group, to report a 33 per cent increase in attributable earnings to R162.2m (US$45.3m) for the six months to September, up from R121.8m last year, writes Mark Suzman in Johannesburg. Although total sales of coal and coke dropped slightly to 22.51m tonnes from 22.85m tonnes due to lower domestic market sales to Eskom, the state electricity utility, turnover rose 12.3 per cent to R1.1bn from R944m. The dividend has been increased to 180 cents from 150 cents.

However, a rise in exports on the strength of the weaker *rand/dollar* exchange rate, combined with successful containment of working costs, led to higher margins, and operating profit increased 33 per cent to R237.4m from R178.6m.

Mr David Rankin, Amcoal chairman, said he expected earnings for the year to show a similar improvement to the first half due to improved prices. However, he warned that two derailments on the railway to Richards Bay, the port from which exports are shipped, have delayed certain shipments and will dent export earnings for the second half.

JAL, American Airlines in frequent-flyer accord

Japan Airlines (JAL) has concluded an agreement with American Airlines linking the two companies' frequent-flyer programmes, writes Gerard Baker in Tokyo.

From January 1 next year, members of JAL's four regionally-based frequent-flyer programmes and members of American's Advantage Travel Awards scheme will be able to participate in each other's programmes. The agreement is the latest in a series of tie-ups that link the leading airlines in Asia, North America and Europe.

American Airlines, AMR Corporation's largest subsidiary, serves 176 cities throughout the US, the Caribbean, Canada, Europe and Latin America, as well as Tokyo. Japan Airlines serves 62 cities in 25 countries worldwide.

First National Bank posts record profits

First National Bank, the South African banking group, performed strongly in the year ended September to raise pre-tax income to a record R1.1bn, up 30.9 per cent from R906.3m previously, writes Mark Suzman.

Net interest income rose 13.7 per cent to R2.58bn from R2.28bn, while the charge for bad and doubtful debts edged up by only 2.2 per cent to R351.3m from R343.6.

Advances increased by 18.6 per cent to R48.26bn from R40.7bn, while total assets, which include those of First Bowring and Associates for the first time, rose 15.3 per cent to R61.76bn, up from R53.6bn.

Group capitalisation is at 9.1 per cent, down from 10 per cent last year but still well within the 8 per cent limit required by the Banks Act by January 1995.

Mr Barry Swart, managing director, said the results reflected market gains in both home loans and credit instalment across all divisions. He said he was optimistic the good results would continue into the next year in spite of pressure on gross margins from higher interest rates.

Mr Swart also voiced his support for the recent R2bn agreement between leading financial groups and the government to open up housing loans to the lower end of the market. "It will work to the advantage of both the government and ourselves and we are very happy to take a reasonable commercial risk on the scheme."

Seagram opens S Africa marketing operation

Seagram, the Canadian drinks company, has launched Seagram South Africa, a wholly-owned sales and marketing operation to service the southern African region, writes Mark Suzman.

At the new company's launch in Cape Town yesterday, Mr Jake Scott, vice-president of Seagram for Europe and Africa, said the company was committed to building up local employment and would sponsor a social responsibility programme aimed at South African youth.

MEPC Australia awarded A3 rating

Moody's, the US credit rating agency, yesterday assigned an A3 long-term debt rating to MEPC Australia, part of the UK property group, and a prime-2 rating to its A$500m (US$370.3m) commercial paper programme, writes Nikki Tait in Sydney. MEPC has announced plans to diversify its UK-dominated portfolio through greater investment in the the Australian property market.

Commenting on the move, and associated rating, Moody's said it believed Australia to be "the most volatile of MEPC's areas of concentration" and viewed "additional exposure as incremental to the company's risk profile".

However, it added that such risk was "somewhat mitigated by the company's long and successful presence in this market".

Oerlikon-Bührle sees higher sales in 1994

Oerlikon-Bührle, the Swiss engineering company, expects 1994 group sales to be between SFr3.6bn (US$2.9m) and SFr3.7bn, including the acquisition of Leybold of Germany. This compares with SFr2.99bn in 1993, AP-DJ reports from Zurich.

Mr Hans Widmer, chairman and chief executive, said "the Leybold acquisition should boost sales this year".

Leybold specialises in vacuum technology, which is used to produce compact discs.

Bührle has said it expects to post 1994 group net income of SFr65m, excluding Leybold, up 3.5 per cent from SFr62.8m.

Including the acquisition, however, Mr Widmer said he expected 1994 net income to be even higher, adding that Leybold expects to report net profit of about DM47m (US$31.3m) this year.

BCE lifts Teleglobe stake

BCE, Canada's biggest telecommunications group, has bought 247,300 more shares of Teleglobe, Canada's overseas telecommunications company, to bring its total interest to 24.4 per cent, writes Robert Gibbens in Montreal.

US groups in Internet commerce agreement

By Louise Kehoe

Tandem Computers of the US has reached a preliminary agreement to collaborate with Open Market, a software company, in the emerging market for electronic commerce on the Internet, a global computer information network.

Tandem sees electronic commerce as a significant new market opportunity. Open Market, based in Cambridge, Massachusetts, has developed software that enables companies to establish and manage on-line shopping services.

Electronic commerce is expected to reduce substantially the paperwork involved in corporate purchasing – currently estimated at more than 2.7bn pages daily. It also offers new ways to reach mass *markets of consumers*.

The Internet has more than 25m users and is estimated to be growing at a rate of two to three million new users a month.

On-line shopping will generate about $4.8bn a year by 1998, predicts Forrester Research, a US market research company.

Growth will be driven by the proliferation of home computers and by improvements in on-line product presentation, it says.

Also boosting growth is the expanding use of commercial on-line computer information and communications services such as Prodigy, America Online and Compuserve. At the end of 1993 these services had about 3.9m subscribers. The number is expected to reach about 5.2m by the end of *this year, according to market* researchers.

Banks seek tighter loan covenants

Revival in syndicated lending has reawakened old fears, write **John Gapper** and **Graham Bowley**

Many US banks may *have breathed a sigh* of relief at the warning by Mr Walter Shipley, *chairman and chief executive* of Chemical Banking, that he is prepared to give up Chemical's *leadership of the US syn*dicated loans market rather than accept looser terms for lending.

European banks will hope that this example becomes the latest development in *syndi*cated lending to cross the Atlantic.

There were signs last year that the revival of syndicated lending – in which a loan to a large company is arranged by one or two lead banks, and an unlimited number of banks contribute to it – was bringing back to banks familiar dangers.

It has become reality this year, as European banks have followed those in the US by narrowing margins and slackening loan covenants.

Many banks fear a repeat of the late 1980s, when the driving down of margins as banks competed for assets was followed by a wave of corporate collapses.

A form of lending that would scarcely have brought an adequate return on capital for banks, even if every loan had been paid back, became the latest of a series of collective blunders by the banking industry.

Yet, while banks have been *groping for a floor* to lending terms, developments such as the re-entry of smaller Japanese banks since April have made it elusive.

"One keeps hearing of bank credit committees saying they will not go below this or that line, but one rapidly hears of a deal that does so," says Mr Stanley Hurn, head of loan syndication at Midland Bank.

As banks in first the US and *then Europe have re-built* capital ratios to well above the minimum levels set by the 1988 *Basle* accord, they have been seeking assets again.

"There is an awful lot of money chasing very few borrowers, and the imbalance of supply and demand is driv*ing prices down," says* Mr Jonathan Macdonald, a vice-president of Union Bank of *Switzerland*.

Some deals are starting to resemble the notorious multi-option facilities (Mofs) of the late 1980s, which made banks bid to take part when companies exercised agreed facilities.

"Mofs are so discredited that we will not see them again, but a facility with a bidding mechanism is a Mof by another name," says one head of loan syndication for a European bank.

In theory, syndicated lending ought to be a dying art.

Banks have calculated that they need a margin of at least 80 basis points (hundredths of a percentage point) over the London interbank offered rate (Libor) on loans to single-A grade borrowers to make adequate returns. In practice, margins have fallen this year from about 45 to between 20 and 22 basis points.

Companies were also *thought* to be *shifting* towards relying on capital markets for short- and medium-term finance. But bond market volatility this year has made many corporate treasurers re-think.

"Margins are at historically low levels, and borrowers can achieve terms similar to bond markets," says Mr Peter Nightingale, Chemical's head of European loan syndication.

However, syndicated lending can be more profitable for banks than it immediately *appears. One reason is* that the cost of funds of large banks, such as the UK clearers, is not *in practice Libor. Because of* their size and strength, they can obtain money at about 10 basis *points* below *Libor,* which makes their actual lending margins about one-third higher than their apparent ones.

A second reason is that banks get fees for lending in addition to the margin. These range from underwriting fees for banks that syndicate and lead manage loans, to participation fees for smaller banks. Many larger banks try to arrange and lead manage as many loans as possible to obtain fees, and keep only a tiny proportion of *those loans on their balance* sheets.

A third reason is that banks still use lending as a means of attracting other business such as cash management and cheque clearing.

All these factors have led to a big revival in the global syndicated loans market. There were $795bn of loans in the global last year, compared with $627bn in 1992, according to *Euromoney Loanware*. About $497bn was lent in the first nine months of this year, and activity is expected to intensify.

This has led not only to margins tightening sharply, but banks have also been willing to lend for longer, locking themselves into low-return assets. Banks were reluctant to lend for more than three years in the early 1990s, but facilities such as the recent 10-year, £100m loan negotiated by 3i, the UK venture capital group, have become increasingly common.

Furthermore, fees are com*ing under pressure. The stan*dard commitment fee for undrawn facilities has fallen to *10 basis points or below.*

Some bankers report that legal fees charged on standard *loans* by *leading UK firms have* been forced down to about £10,000 from £25,000 two years ago. They also *fear that banks* will start to wrap fees into the overall lending margin.

Potentially the most worrying development for banks, however, is the relaxation of loan covenants. These commonly include financial ratios such as interest cover, gearing and the minimum net worth of the borrower.

It is the willingness of some banks to accept deals with loose covenants – and some deals with none – that has particularly worried Mr Shipley.

Some bankers argue that *covenants are not significant* because European credit quality is improving, and covenants did not prevent the last wave of corporate defaults. Yet given the ability of a single corporate collapse to eliminate the slim return on assets in a bank's syndicated lending activities, others regard the protection of covenants as vital.

Mr Shipley's warning may be *a first step to restoring equilib*rium for other banks. But the protection of loan covenants will require senior directors of banks to back the judgment of internal credit committees against those of executives who market loans.

Without such tough measures, many bankers fear that history will repeat itself uncomfortably quickly.

INTERNATIONAL COMPANIES AND FINANCE

YPF earnings advance 14% in third quarter

By David Pilling in Buenos Aires

Higher oil and gas prices helped YPF, Argentina's privatised oil group, increase net profits 14 per cent in the third quarter to $181m from $159m in the same period of 1993.

However, operating profit fell slightly over the same period to $223m in the quarter to September 30, from $228m.

Exploration costs more than doubled to $122m in the first nine months, part of the company's ambitious investment plans over the next 10 years.

Mr José Estenssoro, YPF president and chief executive, said the rise in net income was due to "higher crude oil production and prices, higher natural gas prices and lower asset taxes". However, increased depreciation and exploration spending kept operating income flat.

In the first nine months of this year, net revenue from sales slipped 1.3 per cent to $2.99bn, partly as a result of "weather problems" in the second quarter, but in the third quarter revenue was up by 3.8 per cent to $1.09bn.

YPF denied local press reports that it had made an oil discovery in Rincon de los Sauces, in Argentina's central Neuquen basin, but it did confirm that it was exploring the area.

Mr Christopher Ecclestone of brokers Interacciones said the results were "good at the bottom line" but that YPF was "losing position in some areas" with lower sales of gasoline, diesel and fuel oil. He also pointed out that bottom-line results were helped by taxes of only $2m against $14m in the same quarter of 1993.

Digital unveils new products

By Alan Cane

Digital Equipment, the troubled US computer manufacturer, yesterday unveiled a new product and distribution strategy as part of its drive to return to growth and profitability.

It announced eight new workstations and midrange machines based on its world-leading "Alpha" technology, and discounts for dealers.

Alpha microprocessors are reckoned to be the world's fastest and Digital has staked its future on their success. Mr Enrico Pesatori, head of Digital's computer systems division, said yesterday that in the first quarter of the current year, Alpha sales increased by 133 per cent. Last year sales of Alpha technology amounted to $1bn.

The computers announced yesterday are an attempt to combine the power of the fastest Alpha microprocessors with the economics of low cost personal computers; this will cut both purchase price and running costs. The new machines are priced between $7,000 and $15,000.

The new dealer discounts, coupled with improved terms and conditions of service, are an attempt to make Digital products more attractive to dealers and other distributors, a group that Digital has neglected in the past. Now it will provide partners with marketing support to increase demand and broaden the market for Alpha products.

The company is already running a substantial advertising campaign to reassure customers and potential customers of its commitment to the computer business and this will be complemented by a rash of product advertising.

The Alpha machines, however, face stiff competition from Power PC computers from Apple and IBM.

Tenneco to offer more shares in Case unit

By Laurie Morse in Chicago

Tenneco, the diversified US industrial gronp, is to issue 15.6m more sbares of its J.I. Case farm and construction equipment unit in a deal that will rednce Tenneco's holding in the company to less than 50 per cent.

The share sale, which follows an initial public offering of Case's shares last June, is expected to net Tenneco abont $320m, as well as $150m in cash benefits related to taxes.

In the June offering, Tenneco sold 29 per cent of Case to the public at $19 a share, raising more than $380m. Case shares were $20⅞ at lunchtime on the New York Stock Exchange.

The offering pnts Tenneco in a race to reinvest the proceeds from the Case sales in a way that will replace Case's contributions to earnings.

The second-largest farm equipment maker in the US, and the world's largest manufacturer and distributor of light and medium-sized construction machinery, Case had sales of nearly $4bn last year.

During the fourth quarter, Case contributed $73m, or almost 20 per cent, of Tenneco's $363m operating income.

Microsoft in TV software project

By Louise Kehoe in San Francisco

Microsoft, the world's largest computer software company, aims to establish itself as the leading software supplier for interactive broadband networks that will provide interactive television and home PC services.

The company yesterday announced an "end-to-end software solution" for interactive TV, including distributed operating system software for connecting television set-top boxes and personal computers with a wide variety of services, plus media server software for delivering video on demand and a set of interactive system applications.

The Microsoft software is to be tested in an interactive TV trial being staged next year in Seattle, Washington, by Tele-Communications, the largest US cable-TV operator.

Microsoft yesterday announced agreements with other network operators including Deutsche Telekom, Telstra of Australia and US West Communications, a regional US telephone company, which will also test the Microsoft technology.

Previously, Rogers Cablesystems, Nippon Telegraph & Telephone and SBC Communications also announced plans to use the Microsoft technology.

Hewlett-Packard, the second largest US computer company, and NEC of Japan, are to develop set-top boxes that will be used to link TV sets to interactive services using Microsoft software.

They join General Instrument, the leading maker of cable-TV converter boxes, in supporting Microsoft technology.

NEC will also build "media servers" for video on demand services. Intel and Compaq Computer have previously announced their intention to build servers compatible with the Microsoft software.

Several systems integrators including Alcatel, Andersen Consulting, Lockheed Missiles & Space, NTT Data Communications Systems and Olivetti have committed to provide service and support for testing and global deployment of the Microsoft technology.

"Microsoft is pleased to be working with a broad range of telecommunications leaders as we complete the design of our system; together we can build a basis for the evolving information society," said Mr Craig Mundie, vice-president of the advanced consumer technology division at Microsoft.

Microsoft said it would publish details of interfaces needed to make use of its software, and offer the development tools necessary for other developers to create services, applications and multimedia content for interactive TV.

"Our strategy is to develop a deployable system, where the engineering work is complete, and then test it at every increasing scale in order to get it to commercial operation," said Ms Laura Jennings, senior director of the advanced consumer technology division at Microsoft.

Aetna credit rating cut again

By Richard Waters in New York

Aetna, the US insurer, suffered another cut in its credit rating this week, the latest in a rash of downgradings that has hit the US property/casualty insurance industry in the wake of growing concerns over pollution and asbestos liabilities.

Others to be downgraded in recent weeks include Cigna, which on Monday announced a withdrawal from the reinsurance business to help rebuild the profitability of its property/casualty operations, and Continental, which last month set aside $400m for possible future pollution claims.

AM Best, the specialist insurance rating concern, said it had reduced Aetna's rating to single-A minus from single A. It cited the company's long drawn-out attempts to cut costs, as well as poor conditions in the commercial property/casualty business and "the ongoing earnings drag and volatility associated with emerging environmental and asbestos claims".

Aetna surprised Wall Street in July by announcing big pollution-related costs. The company lost its double-A credit rating from Standard & Poor's in August, and in September was cut to A2 from A1 by Moody's.

At the end of June, the company's reserves against environmental losses stood at $334m – far less than other big insurers, such as Cigna, whose reserves were $775m, according to insurance industry analysts at Oppenheimer in New York. The contrast suggests that Aetna will have to put aside significantly greater reserves in future, Oppenheimer said.

Cigna, meanwhile, lost its single-A standing in August when Moody's reduced its rating to Baa1, citing in part its "exposure to adverse loss development from asbestos and environmental claims".

Both Aetna and Cigna contested the agencies' decisions, arguing that they failed to take account of efforts made by both to boost profitability in their property/casualty businesses.

Mr William Wilt, an associate analyst at Moody's, said yesterday the agency believed US insurers generally had adequate reserves to meet normal claims.

However, he added that catastrophe losses among insurers of personal insurance, along with environmental and ashestos losses among commercial insurers, could eventually prove these reserves to be totally inadequate.

Commenting on the possible scale of the future losses, Mr Wilt said: "They're unquantifisble. It's anybody's guess, really."

Columbia/HCA boosted by out-patient side

By Richard Waters

Columbia/HCA, the US's biggest hospital gronp, recorded a 14 per cent increase in operating earnings in the three months to the end of September on the back of a jump in out-patient services.

The company's operating profit margin improved to 18.6 per cent, from 17.9 per cent a year ago, said Mr David Vandewater, chief operating officer.

Columbia/HCA has pulled off a string of multi-billion dollar acquisitions in the past 18 months in an attempt to bolster its market position and strengthen profit margins at s time when healthcare companies across the US are under pressure to reduce their prices.

The third-quarter figures reflect a 2 per cent increase in admissions at hospitals which the company had owned a year before, and a 52 per cent increase to out-patient visits. While hospital stays are declining overall in the US, Columbia/HCA has advanced in part by buying new hospitals in the same areas as its existing facilities and then shifting patients between sites to boost admission rates.

Operating profits for the period were $507m, up 14 per cent on a year sgo, while total revenues were $2.7bn, up 9.5 per cent. Net income for the quarter was $153m, or 44 cents a share, after a $23m charge for the early retirement of debt. The company reported an after-tax loss of $56m, or 16 cents s share, in the 1993 period after $193m of one-off charges.

Salomon debt downgraded after losses

By Patrick Harverson *in New York*

Standard & Poor's, the US credit rating agency, has downgraded the debt of Salomon Inc, a week after the group's Salomon Brothers securities broking unit reported its second consecutive quarter of heavy losses.

The downgrading of Salomon's senior debt rating, from single A minus to triple B plus, will make it more expensive for Salomon to raise funds in the capital markets, because issuers with lower ratings have to offer higher yields to convince investors to buy their debt.

"The immediate effect is a higher cost of funding for Salomon," said Mr Michael Flanagan, securities industry analyst at Lipper Analytical in New York.

The loss of an A rating will also shrink the pool of potential buyers of Salomon's debt, because some institutions do not invest in securities listed below an A rating.

S&P also lowered its ratings on Salomon's subordinated debt and preferred stock.

Poor returns from US purchases, study says

By Richard Waters in New York

Foreign companies have suffered poor and declining returns on their US acquisitions in recent years, but could see a rebound in overall profitability in the near fnture, according to s study by two economists st the Federal Reserve Bank of New York.

The two, Mr Dsvid Laster and Mr Robert McCauley, note that foreigners havs paid $316bn to buy US companies over the past decade, hut lost money overall on their holdings in 1992 – a year of record profits for US-owned companies. The performance, the authors say, "strikes many as unbelievable".

They attribute the results to the tendency of foreign companies to buy poorly-performing US businesses, and to attempt to rebuild them through fresh investment. "These companies paid top dollar for underperforming US firms, borrowed heavily, and then spent freely on investment and marketing," the authors say.

The overall poor performance of foreign-owned firms in 1992 also reflects the heavy level of purchases in recent years, with many of the businesses still in the early phases of planned turnrounds.

With fewer purchases now, and with some foreigners shedding their loss-making US companies, overall profitahility will rise in the coming years, according to the Fed study.

The authors dismiss the suggestion that a weak dollar has depressed the earnings in recent years, but say there is "some evidence" that foreign companies have sought to reduce their profits in the US to cut their tax hills there.

● UK companies were ths higgest foreign investors in the US last year, and this year should see their total US investments overhaul those of Japanese companies, according to a study of foreign direct investment by Arthur Andersen.

The accounting firm puts investment by UK firms either in acquisitions or creation and expansion of businesses at $9.03bn last year, four times the level of 1992. Japanese companies, meanwhile, invested $1.8bn, down from $2.9bn the year before. These figures are well below peaks hit in 1989.

Talisman ahead at C$44.1m

Strong North American demand for natural gas and gas liquids and the addition of oil production from the North Sea and Indonesia lifted Talisman Energy's net profit at nine months to C$44.1m (US$32.7m), or 61 cents a share, from C$19.2m, or 33 cents, a year ago, on revenues of C$387m against C$219m, writes Robert Gibbens in Montreal.

Third-quarter net profit was C$15.2m, or 18 cents, up from C$4.3m, or 7 cents, on revenues of C$166m against C$94m.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 03.11.94 — Pool purchase price £/MWh	Final Prices for Trading on [illegible] — Pool purchase price £/MWh	Pool selling price £/MWh
0030	10.04	10.20	10.20
0100	35.58	10.01	10.01
0130	46.24	10.20	10.20
0200	48.24	13.48	14.88
0030	48.24	13.48	14.88
0300	38.38	13.48	14.88
0330	9.30	13.48	14.88
0400	9.30	13.48	14.88
0430	9.30	10.20	10.20
0500	9.21	10.20	10.20
0530	22.85	10.03	10.03
0600	22.85	10.20	10.20
0630	31.08	16.30	17.71
0700	31.58	25.25	26.66
0730	30.95	16.71	18.20
0800	31.53	31.73	38.39
0830	31.61	32.13	33.83
0900	34.77	32.14	33.86
0930	34.79	26.04	27.84
1000	34.81	26.01	27.81
1000	34.81	26.01	27.82
1100	34.82	25.97	27.58
1130	44.75	26.04	27.65
1200	44.76	26.08	27.57
1230	44.75	25.96	27.57
1300	44.73	25.76	27.30
1330	34.78	25.45	26.92
1400	34.77	20.08	21.47
1430	32.51	20.01	21.44
1500	34.76	19.90	21.42
1530	34.77	19.98	21.41
1600	35.96	20.05	21.49
1630	38.36	20.18	21.67
1700	88.86	20.30	21.82
1730	93.69	20.24	21.75
1800	92.32	20.13	21.62
1830	58.23	20.77	22.45
1900	49.29	54.56	56.59
1930	41.48	54.91	58.97
2000	43.07	54.30	56.20
2030	37.46	36.90	38.47
2100	36.63	19.72	21.16
2130	37.44	16.48	17.91
2200	31.83	16.46	17.86
2230	30.95	16.42	17.85
2300	30.95	16.23	17.83
2330	9.33	16.94	17.34
2400	10.13	10.20	10.20

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.69/MWh becomes 1.669p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of that revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Pool Selling Prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8.30am and 5.15pm Monday to Friday.
©Energy Settlements and Information Services Limited

Komatsu benefits from public works projects

By Michiyo Nakamoto in Tokyo

Komatsu, the Japanese maker of construction equipment, posted a 5 per cent increase in non-consolidated recurring profits – before extraordinary items and tax – for the first six months of fiscal year 1994-95, helped by strong demand from domestic public works projects.

The company, which is the world's second-largest integrated maker of construction machinery, increased recurring profits to Y7.4bn ($76.48m) from a previous Y7bn, in spite of a 3 per cent fall in sales to Y235.5bn from Y243.1bn. Net profits surged 21 per cent to Y4.3bn from Y3.5bn.

Strong demand from public works projects in Japan helped the company overcome a slump in private-sector orders, Komatsu said. As a result, domestic sales of construction equipment rose 5 per cent.

However, the weakness of private-sector demand pushed domestic sales of its industrial machinery division down 38 per cent.

In terms of exports, Komatsu suffered from sluggish demand for construction machinery in its largest markets in the Middle East, Russia and China, which aggravated the adverse effects of the yen's sharp appreciation.

Exports of industrial machinery plunged 52 per cent as important customers among vehicle makers in Europe and Asia cut capital investment substantially. Komatsu exports mainly body presses for the motor industry.

Komatsu expects the weak conditions in its export markets to continue in the second half. As a result, it has revised its full-year sales forecast down to Y500bn from the Y510bn forecast in May.

However, Komatsu is restructuring its operations and expects to be able to achieve its earlier forecast for recurring profits of Y17bn, while forecasting net profits unchanged at Y9bn.

The airline has redesigned its livery to emphasise its Asian image, writes **Simon Holberton**

Cathay Pacific puts its future in Hong Kong

The twin elements of Cathay Pacific's strategy for beating the recession in the airline industry came together this week when the Hong Kong-based carrier unveiled the first of its newly-acquired, long-range Airbus A340s sporting its new livery.

The redesign of Cathay's corporate identity is meant to shift the airline's image from that of a British to an Asian airline. The acquisition of the A340s is intended to allow Cathay to offer a better service by providing more direct flights – especially in Europe – than it has currently been able to do.

Cathay's investment in new aircraft – it has orders for $4bn worth of Airbus aircraft, produced by a European consortium – and the new corporate image underlines a third, but less stressed, aspect of the message it wishes to convey. This is that Cathay, which is currently 52 per cent owned by Swire Pacific, the UK conglomerate, has a future in Hong Kong after 1997.

"The old livery had been with us for more than 25 years," says Mr Peter Sutch, Cathay chairman.

"It was distinctive and had done us proud, but its association is with old Hong Kong. I don't like to use the word 'colonial', but as with the tail, which used to carry the Union Jack [flag], the old livery was outdated. We wanted something 'that reflected that change; we wanted something Asian in appearance: we wanted a quality look with an Asian flavour."

This desire came from the fact that nearly 80 per cent of Cathay's passengers are Asian. The research Cathay conducted as part of its image redesign underlined its overwhelmingly Asian customer base, and that it was not "catering quite as much as we should to these customers". Although Caucasian travellers saw Cathay as an Asian airline, Asians, who perceive the airline as being well-managed and safe, did not.

Cathay is trying to change that. The airline now offers a wider range of Asian meals and has begun to communicate in Asian languages. In-flight information and reading materials are now provided in Japanese, Korean, Mandarin and Cantonese, as well as English.

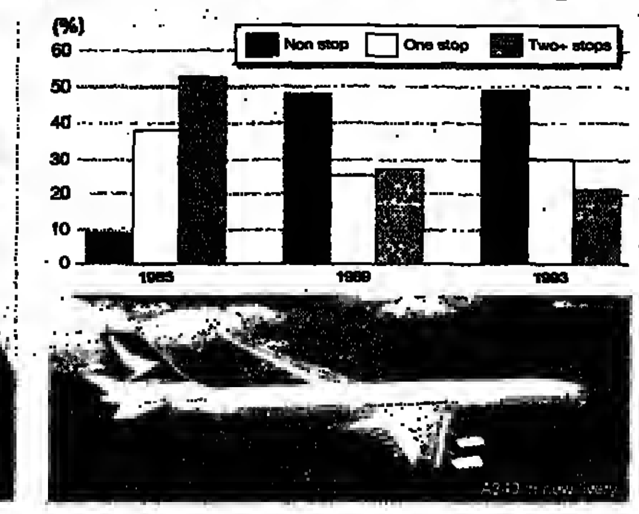
Furthermore, as the result of a management reorganisation last year the airline's four general managers in charge of routes were given greater authority to alter the services to reflect local taste. Taiwanese travellers, for example, want to eat real Chinese food and want to buy duty-free goods on board. Within the constraints of a one-hour flight Cathay is attempting to meet that need.

Mr Sutch says the airline always thought the Boeing 747-400 would serve its long-haul aircraft needs, but the recession in the airline industry and changing consumer tastes altered that. "Serving smaller airports with the 747 became exceedingly expensive as landing fees and over-flight fees rose," he said.

As the airline was flying half-full 747s to Zurich via Rome it found it was losing out to Swissair and Alitalia which were offering a direct service and operating the smaller McDonnell Douglas MD-11.

Peter Sutch, chairman

Non-stop: how Europe-Asia/Pacific route services have changed



Source: OAG, Airbus

"We had a good formula in Asia where we used TriStars on the smaller routes but 747s on the big routes such as Tokyo and Singapore," says Mr Sutch.

"We thought a similar approach could be used on long haul. Zurich couldn't justify a non-stop 747 service – the market is not big enough – so it became a choice between the Boeing 777 or the A340. At the end of the day, while the 777 is a superb aircraft, the economics of a four-engine aircraft for ultra-long haul are better than those for a two engine aircraft."

The Airbus had two other advantages. Cathay preferred the seat configuration to that of the 777. The A340 offers six abreast in business class, rather than seven abreast for the 777, and eight abreast in economy, rather than nine abreast. Another compelling factor was "commonality".

There are many common features between the A340 and its smaller sister aircraft the A330, and indeed the even smaller A320. This means that pilots do not need to spend as much time learning to fly others in the Airbus family once they have learned to fly one. This is a large cost saving for airlines and leads to greater pilot productivity as they can be switched between long- and short-haul routes.

Cathay is probably the only airline which has its future regularly questioned. The change from UK to Chinese sovereignty in 1997 is something which leads many to question whether China will allow Cathay to exist in its present form while being UK-controlled.

Earlier this year Cathay received welcome reassurance of its future when China Southern Airlines, the Canton-based mainland carrier, withdrew from discussions to buy Air Hong Kong, a small local air freight carrier. Cathay was the other bidder and when China Southern withdrew it snapped up 75 per cent of Air Hong Kong for HK$200m ($25.86m).

What was interesting about China Southern's withdrawal was Beijing's intervention. Mr Lu Ping, China's top official on Hong Kong affairs, personally intervened to prevent China Southern buying Air Hong Kong.

Failure to have done so would have undermined, possibly fatally, the guarantee to Cathay implicit in Sino-British agreements that it would be the sole airline for Hong Kong after 1997.

Mr Sutch demurs when asked about the Air Hong Kong talks – in which he represented Cathay's interests. "I understand that [China Southern] did not have the wholehearted support of the authorities in China.

"If that is the case then it was just another reflection of the policy of the state council, namely, that Hong Kong should be able to develop independently as it has in the past."

Inevitably, the firmness of Swire's 52 per cent ownership of Cathay is questioned. Mr John Godfray, conglomerates analyst at Kleinwort Benson Securities in Hong Kong, believes that after 1997 Swire may well find it prudent to trim its stake in the airline to below 50 per cent.

He believes a merger between Cathay and Dragon Air might be the answer. "It is logically possible to wrap them up into one group," he says.

Without commenting directly on Mr Godfray's suggestion, Swire executives concede that as things develop there may be a need to conduct some fine-tuning of the Swire shareholding, but nothing dramatic.

"One has to be realistic," observes one executive.

ASX wins legal battle over new options

By Nikki Tait in Sydney

The Australian Stock Exchange yesterday won a significant victory in its battle with the Sydney Futures Exchange over who should run the market for individual share futures.

A Federal Court judge ruled that the ASX could go ahead with the launch of low exercise price options (LEPOs). These are designed as very deep "in the money" call options, whose exercise price could be as little as 1 cent. The options' structure means that they should trade directly in line with the underlying physical stock, but – because of the option market's margin system – the full price only becomes payable on expiry.

The ASX had proposed launching LEPOs last May, a response to the SFE's decision to introduce futures contracts on three individual shares – BHP, News Corporation and National Australia Bank. The SFE was the first to offer individual share futures, and it has subsequently added four contracts (for MIM, Western Mining, Westpac, and BTR Nylex).

Hoping to curtail the ASX's rival ambitions, the SFE mounted a legal challenge to LEPOs, arguing that these were in effect futures contracts and hence could not be traded on the ASX. Under Australian corporation law, there is a strict divide between the two exchanges' potential territories: SFE is restricted to futures trading, while the ASX can only trade securities.

The SFE's argument centred on the fact that an investor was actually obliged to exercise the options, through "economic imperative", and this obligation made the LEPOs "eligible commodity agreements" - bringing them within the definition of futures contracts. In his court ruling yesterday, Mr Justice Sackville said that it was undeniable that the taker of the option had a powerful incentive to exercise the option or close it out. But, he added, "he or she is not bound to do so, in the sense of owing a duty to the writer of the option or anyone else".

Accordingly, he dismissed the SFE's claim, and ordered it to pay the ASX's costs.

The SFE, acknowledging that it was disappointed, said it was taking legal advice over whether to appeal.

Survey shows explanation is still needed

Bankers have been quick to emphasise the importance of properly explaining their derivative products in the wake of this year's highly publicised losses by companies in the US and Europe.

A survey of UK companies*, published today, shows that they still have a lot of work to do in this respect. But it also indicates that companies could more to help themselves.

DERIVATIVES

Ninety corporate treasurers – all working for companies which make up the FT-SE Mid 250 index – responded to the fourth annual survey by Record Treasury Management, a firm of consultants which advises companies on how to manage currency and other financial risks.

Like previous surveys by Record, this ona covers the views of corporate treasurers on interest rate and currency trends as well as broader economic developmants. But for the first time the survey also includes a section on derivatives.

It found that although nine out of 10 treasurers use derivatives, more than half these users believe salesmen are not properly explaining the risks involved.

Thirty-six per cent of respondents said banks explained derivatives "inadequately" and a further 18 per cent felt the risks were explained "poorly". Only 1 per cent of respondents said sellers were explaining and quantifying the risks "very well".

However, other sections of the survey indicate that corporate treasurers may not be doing enough to monitor or manage their derivatives risks adequately.

The survey shows two particular weaknesses. First, in spite of continuing levels of volatility in financial markets, nearly three-quarters of respondents "mark to market" the value of their derivatives exposures no more than once a month or even less frequently.

Only 12 per cent "mark to market" weekly and 16 per cent on a daily basis. Mr Les Halpin, chief execntive of Record, says that treasurers should "at least have the facility to mark to market on a daily basis".

"Control and monitoring of exposure to derivative risk is essential even with the less exotic products on the market," insists Record.

Second, a substantial minority of companies have apparently failed to heed the lessons of some of this year's corporate losses and continue to operate corporate treasury departments as "profit centres".

Although three-quarters of corporate treasurers rank their main role as one of "risk reduction", 9 per cent of respondents believe they can "add value". Mr Halpin believes corporate treasuries aiming to add value hava run into problems because they have taken on risks unrelated to their ordinary business.

"Nearly one in 10 see themselves as profit centres. That is enough to give yon all the disasters you need for the next 20 years," he claims.

More generally, there are indications that the management controls and systems for derivatives may not be in place in some companies. Treasury departments appear to allocate relatively few resources to derivative activity, in spite of the fact that it is typically of high value and importance to the company.

It is "hard to know what percentage of resources should be devoted," concedes Mr Halpin. "But this is evidently something that needs looking at."

There are also indications that soma treasurers may not be keeping their boards fully informed about their derivatives activities.

Nearly half the companies surveyed require board level approval for transactions of £1m ($1.58m) and above, but as many as one in five companies make decisions about derivatives transactions of £50m or more without board-level approval.

More generally – and perhaps not surprisingly, given the nature of its own activities – Record suggests that companies make insufficient use of specialist advisers. "Treasurers tend to see derivatives as a do it yourself business. In other areas of business where specialised expertise is needed like accounting and the law, companies appoint outside advisers," explains Mr Neil Record, chairman.

Richard Lapper

Survey of UK Corporate Treasurers, by Record Treasury Management, 32 Peascod Street, Windsor, Berks SL4 1EA

Thai banking sector buoyant

By William Barnes in Bangkok

The Thai banking sector is proving to be robustly profitable in the third quarter in spite of fears that increased competition and a tougher interest rate regime could hurt revenues.

Bangkok Bank, the biggest financial institution in south-east Asia, reported a 31 per cent rise in third-quarter net profits to Bt4.33bn ($173m). This proved to be a disappointment for some analysts, however, after Thai Farmers Bank had earlier reported a net gain of 66 per cent to Bt2.77bn and Krung Thai a 75 per cent profits increase to Bt2.36bn in the quarter to end-September.

Bangkok Bank – like most other Thai banks – issues only a bare profits figure prior to tha release of the full audited financial figures. A spokesman said net profits should rise at least nearly 30 per cent over the full year to about Bt18bn.

Bangkok Bank's lending growth climbed 12 per cent over the three quarters, ahead of deposit growth which rose 6.3 per cent, according to the spokesman.

Analysts say there have been three principal reasons for the sector's buoyant profits – acceleratad loan growth, slower-than-expected convergence of spreads between deposit and lending rates, and declining loan-loss provisions.

Czech brewery to take stake in SA company

By Mark Suzman in Johannesburg and Joe Cook in Prague

Ostravar Pivovary, the 12th biggest brewer in the Czech Republic, has agreed in principle to take a 25 per cent stake in Vivo Beer, a South African beer company that is currently a wholly owned subsidiary of National Sorghum Brewery, the country's largest black-owned private company.

The deal was finalised this week in Johanneshurg and a formal announcement is expected shortly. The value of the transaction has not been released. Under the deal the Czech brewer will license its production techniques and management know-how to the South African company.

NSB was established by the South African government to serve the market for maize-based beers.

Mitsubishi Materials up 26%

By Emiko Terazono in Tokyo

Mitsubishi Materials, a leading Japanese metals and ceramics manufacturer, posted firm profits for the half-year to September due to cost-cutting efforts and an improvement in its financial balance.

Non-consolidated recurring profits – before extraordinary items and tax – for the first half rose 26 per ceot to Y2.6bn ($26.8m) on a 0.3 per cent rise in overall sales to Y344bn. While the company saw an increase in shipments of alnminium cans due to a sharp rise in demand for soft drinks, declines in product prices offset the gains.

Operating earnings rose 44.8 per cent to Y8.3bn. However after-tax profits shrank 4.4 per cent to Y1.1bn due to an extraordinary loss of Y6.4bn stemming from loan-losa reserves. The company faced earnings declines in spite of a special profit of Y4.6bn from asset and securities sales.

Sales of metals fell 1.4 per cent to Y122.2bn while cement sales declined 4.6 per cent to Y54.9bn. Sales of aluminium cans rose 8.8 per cent to Y41.4bn while new materials and silicon sales rose 10.6 per cent to Y34.7bn.

For the year to next March, Mitsubishi Materials expects a 35.6 per cent rise in current profits to Y3.5bn on a 2.6 per cent rise in sales to Y700bn.

Renewed dollar weakness forces Treasuries lower

By Lisa Bransten in New York and Conner Middelmann in London

Early declines in US Treasury prices yesterday morning pushed yields to 2½-year highs, but a recovery in the dollar following Federal Reserve intervention helped the market bounce off its lows. Prices, however, remained firmly rooted in negative territory.

By midday, the benchmark 30-year government bond was down ⅜ at 93⅜ yielding 8.081 per cent. At the short end, the two-year note was down ⅛ at 99⅞ to yield 6.926 per cent.

Early gains following market-neutral economic news were quickly overtaken by events in the currency markets, where the dollar sank to post-1945 lows against the Japanese yen.

Renewed weakness in the dollar unnerved bond market investors, who fear it will deter foreign investors from buying US assets, and contribute to inflation.

At one point, the long bond's decline was sufficient to push its yield up to 8.11 per cent, its highest level since May 1992.

Prices bounced back later in the morning after the Fed intervened in the currency market, wiping out early morning losses. The success of the Fed's actions encouraged investors, who had previously feared that the central bank was unwilling to protect the US currency.

The concern over the dollar overshadowed earlier economic reports. The commerce department reported no change in its index of leading economic indicators for September, and revised its August reading downward to an increase of 0.5 per cent from the 0.6 per cent figure reported last month.

The government also announced that factory orders declined 0.2 per cent in September, a sharp turnaround from the 4.7 per cent surge in orders reported for the previous month.

GOVERNMENT BONDS

Taken together, the data were broadly neutral for bond market sentiment.

Weakness in bond prices was also partially a reflection of investor nervousness before tomorrow's October jobs report. The market's concern is that a stronger than expected report could provoke an immediate interest rate increase by the Fed.

■ The US dollar's woes and further declines in Treasuries depressed European government bonds yesterday. Federal Reserve intervention to support the dollar on the foreign exchanges prompted a modest bounce, but most markets closed lower on the day.

"There's no great deal of focus on European fundamentals these days," said Mr Ifty Islam, international economist with Merrill Lynch.

"With the US payroll data dominating, the bond markets will still very much eye the foreign exchange and Treasuries markets."

■ German government bonds ended the day nearly ½ point lower, but well above their lows. The December bund future on DTB closed at 88.76, down 0.55 point but off its 88.56 low.

In the morning, prices firmed on a leak pointing to lower than expected September industrial output data. The official numbers were indeed lower than forecast, but the data were accompanied by a warning that the rate could be revised upwards by two percentage points next month, causing the market to slip back.

Bunds are expected to remain dogged by continuing currency and interest rate jitters in the US and before next week's new 10-year supply data. Dealers said many investors were unwilling to build up significant positions as the end of a difficult year approaches.

■ Although UK government bonds recouped some of their earlier losses, they closed about ¾ point lower. The long gilt futures contract on Liffe ended at 100½, down ⅔ on the day.

Early in the day, gilts slipped on the growing feeling that Tuesday's gains on the back of the Bank of England's inflation report had been overdone. The weak US bond market put a further damper on gilts.

■ Italian bonds were hit by the upheaval in the currency markets, with the weak dollar pushing the lira to an *all-time* low against the D-Mark. This coincided with renewed speculation that Prime Minister Silvio Berlusconi was about to resign – rumours which were swiftly denied.

However, the fact that currency weakness was enough to spark rumours of Mr Berlusconi's demise highlights the degree of political unease in Italy, dealers said.

■ Swedish bonds fell on disappointment over the government's budget package. The yield on the 11-year bond rose 11 basis points to 11.20 per cent.

Four banks handle Portugese sell-off

By Martin Brice

A four-bank consortium of Merrill Lynch, Banco Essi (the merchant banking arm of *Espirito Santo*, one of Portugal's leading financial groups), UBS and S.G. Warburg is to handle the sale of up to 30 per cent of Portugal Telecom, which is likely to be the biggest global telecoms privatisation of next year.

The deal will consist of four tranches, each handled by a different bank. The domestic tranche, which will be listed in Lisbon, will be handled by Banco Essi; the North America tranche by Merrill Lynch; the UK tranche by S.G. Warburg and the rest of the world by UBS.

Between 20 per cent and 30 per cent of the company will be sold in the initial public offering, which could raise between $1.2bn and $1.5bn. This would be Portugal's biggest privatisation and would value the whole company at between $4bn and $5bn.

The offering is likely to take place in the second quarter of next year.

Three international banking consortia were consulted by the Portuguese government to undertake a valuation of the company, which was formed by the merger earlier this year of three state-owned telecommunications utilities and is the country's biggest employer.

Portugal, which has about 34 telephone lines per 100 population, is expected to open its telephone services to competition by 2003, five years after most of the European Union.

Andalucía makes eurodollar debut as activity steps up

By Graham Bowley

The eurobond market saw an acceleration of activity yesterday with a number of new offerings launched into difficult market conditions.

Comunidad Autonóma de Andalucía, the southern Spanish province, launched its debut eurodollar issue, with a $260m offering of bonds due January 2000.

The bonds offered a coupon of 8 per cent and were priced to yield 47 basis points over US Treasuries, although this spread widened slightly after the bonds were freed to trade.

Joint lead manager Goldman Sachs reported strong demand from investors in Asia/Pacific, UK institutions and continental European retail investors, who were attracted by the relatively high five-year coupon.

Deutsche Bank, the other lead manager, saw strongest demand on its books from Swiss, German and UK investors, with French banks also showing interest.

The proceeds from the offering are to be used mainly for infrastructure financing, Goldman Sachs said. The proceeds were not swapped out of dollars, market sources said.

INTERNATIONAL BONDS

At the shorter end of the dollar sector, Hewlett-Packard Finance, another relatively infrequent borrower, launched a $250m offering of three-year bonds priced to yield 25 basis points over US government bonds.

The bonds were sold mainly to retail investors in Germany, Switzerland, and Belgium and to institutional investors in the UK, lead manager Deutsche Bank said.

The bank said that the offering was launched partly as a result of the demand for three-year dollar paper following the launch of a similar offering by Deutsche Bank Finance last week. *The proceeds from the offering were believed to have been swapped into floating rate dollars, market sources said.*

The pricing spread widened to about 28 basis points after the bonds were freed to trade. However, Deutsche Bank said that it expected the offering to follow a similar pattern to that of the Johnson & Johnson three-year issue launched last week at 15 basis points over but which has since tightened in price.

Hewlett-Packard Finance last tapped the dollar sector in 1992, Deutsche Bank said.

In the D-Mark sector, Depfa launched a DM750m offering of five-year bonds priced to yield 30 basis points over German government bonds. Joint lead manager UBS said demand from institutional investors was better than expected, with about two-thirds of the bonds going to European institutions.

Depfa is Germany's largest mortgage bank and 65 per cent of its new loan business is to the public sector. It has raised about DM15bn since January and plans to raise a further DM2bn this year, although this is likely to be in the domestic market rather than the public euromarket, Depfa said. The proceeds, to be used for general funding purposes, were not swapped out of D-Marks.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Credit Suisse(London Branch)	300	8.50	99.21R	Nov.2004	0.325R	+55(7¼%-04)	CS First Boston
Andalucia(a)	260	8.00	99.17R	Jan.2000	0.275R	+47(7⅞%-99)	Deutsche/ Goldman Sachs
Hewlett-Packard Finance Co.	250	7.50	99.831R	Dec.1997	0.20R	+25(6⅞%-97)	Deutsche Bank London
Finance One(a)§	150	(4¼-4¾)	100.00	Nov.2001	2.50	-	Lehman/ Paribas Cap.Mkts.
YEN							
Nomura Bank(b)★	8bn	4.00	100.00	Feb.1998	undisc.	-	Nomura International
D-MARKS							
Depfa Finance	750	7.375	99.60R	Dec.1999	0.25R	+30(6¼%-99)	Commerzbank/ UBS
European Investment Bank(s)	100	7.25	100.985	Mar.2000	1.825	-	DG Bank
ITALIAN LIRE							
Bayerische Vereinsbank(c)	100bn	11.00	101.27	Dec.1998	1.125	-	Credito Italiano
AUSTRALIAN DOLLARS							
Toyota Finance Australia	100	9.75	100.73	Dec.1997	1.50	-	Hambros Bank
New Sth.Wales Treasury Corp.★	100	4.50#	88.161	Nov.1997	1.375	-	Nomura International

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. §Convertible. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Pricing: week of Nov.21. Indicated conv prem: 8-12%. Callable (mandatorily convertible) after 3 yrs subject to 140% hurdle. Redemption proceeds linked to baht. b) Tranche 4 of Y16bn 5-tranche deal. c) Issue launched on 25/10/94 was increased to L250bn. e) Short 1st coupon.

CS First Boston launches global on-line system

By Conner Middelmann

CS First Boston was today launching a global on-line electronic trading system for US government bonds and related securities.

GovTrade, as the system is known, allows investors to buy and sell US Treasury bills, notes and bonds from the start of European trading to the close of US trading (18 hours) on a live market that can be accessed through Bloomberg terminals.

To trade, an investor chooses on the Bloomberg screen an issue in which CS First Boston makes a price, completes an electronic dealing ticket and transmits the trade to CS First Boston's government bond traders, who confirm the trade.

This procedure frees up some of the bank's trading and sales staff, enabling them to perform tasks other than executing straightforward client orders.

According to Mr Jim Toffey, head of electronic trading for CS First Boston, the bank processed more than 4,200 trades electronically with its customers in October alone. However, he says the system will "complement, rather than replace" the salespeople by offering speed of execution in a liquid and fast-moving market.

The system is an expansion of the firm's proprietary Gov-Trade product which was launched in September 1992. To date, securities worth $60bn have been traded on the system with more than 400 customers in the US, the bank says. Some 75 investors outside the US are currently viewing the product.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	90.4500	-0.280	10.58	10.46	10.20
Belgium		7.750	10/04	94.7300	-0.430	8.56	8.58	8.61
Canada *		6.500	06/04	82.9500	-0.300	8.22	8.14	8.04
Denmark		7.000	12/04	86.8500	-0.270	8.04	9.02	8.18
France	BTAN	8.000	05/98	101.8100	+0.360	7.55	7.65	7.86
	OAT	5.500	04/04	81.5900	-0.620	8.30	8.36	8.30
Germany Treu		7.500	09/04	98.7000	-0.560	7.69	7.71	7.80
Italy		8.500	08/04	80.7300	-0.770	11.89†	11.83	11.99
Japan	No 115	4.800	06/99	102.8860	+0.079	4.06	4.12	4.02
Japan	No 164	4.100	12/03	96.2590	+0.277	4.69	4.78	4.69
Netherlands		7.250	10/04	97.0000	-0.600	7.69	7.68	7.71
Spain		8.000	05/04	81.1500	-0.300	11.31	11.27	11.31
UK Gilts		6.000	08/99	89-27	-9/32	9.63	8.80	8.73
		9.750	11/04	86-27	-19/32	8.74	9.92	9.92
		9.000	10/08	102-14	-23/32	8.70	8.86	8.86
US Treasury *		7.250	08/04	95-09	-12/32	7.95	7.88	7.76
		7.500	11/24	93-12	-14/32	8.09	8.09	7.95
ECU (French Govt)		8.000	04/04	82.6500	-0.480	8.76	8.77	8.76

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. *Source: MMS International*

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

		One month	4.49	Two year	6.96
Prime rate	7¾	Two month	5.33	Three year	7.21
Broker loan rate	6½	Three month	5.24	Five year	7.65
Fed.funds	4¾	Six month	5.78	10-year	7.96
Fed.funds at intervention	-	One year	6.25	30-year	8.11

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	109.38	109.30	-0.64	109.58	109.14	102,004	132,705
Mar	108.66	108.48	-0.66	108.66	108.36	782	12,525
Jun	107.84	107.66	-0.66	107.84	107.72	527	1,361

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Nov	Puts Dec	Puts Mar
110	0.57	1.19	-	1.31	-	-
111	0.28	-	-	2.00	-	-
112	0.12	0.56	-	2.81	-	-
113	0.06	0.35	-	-	-	-
114	0.03	0.24	-	4.66	-	-

Est. vol. total, Calls 29,790 Puts 22,612 . Previous day's open int., Calls 299,577 Puts 300,119.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	88.96	88.85	-0.49	89.02	88.61	147010	179284
Mar	88.15	88.04	-0.50	88.20	88.00	1530	7084

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
8850	0.93	0.84	1.11	1.25	0.58	1.30	1.57	1.71
8900	0.68	0.63	0.89	1.02	0.81	1.59	1.85	1.98
8950	0.43	0.46	0.70	0.83	1.08	1.92	2.18	2.29

Est. vol. total, Calls 24320 Puts 13600. Previous day's open int., Calls 284244 Puts 222276

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.60	99.35	-0.74	99.78	99.07	38895	57812
Mar	98.90	98.60	-0.75	98.90	98.60	272	5216

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9900	1.30	2.26	0.95	2.66
9950	1.03	2.03	1.18	2.93
10000	0.79	1.83	1.44	3.23

Est. vol. total, Calls 3120 Puts 2475. Previous day's open int., Calls 24552 Puts 31440

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) (Oct 31)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.37	86.35	-0.32	86.43	86.10	41,465	76,637
Mar	-	85.43	-	-	-	48	148

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100-25	100-17	-0-22	100-27	100-04	69937	109814
Mar		99-23	-0-20			0	52

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
100	1-23	2-18	0-53	2-34
101	0-52	1-48	1-18	3-02
102	0-28	1-23	1-58	3-41

Est. vol. total, Calls 4058 Puts 7831. Previous day's open int., Calls 78138 Puts 43735

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	80.00	79.68	-0.46	80.00	79.60	3,273	6,077

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	97-08	97-02	-0-07	97-14	97-01	382,044	387,423
Mar	96-22	96-14	-0-07	96-26	96-13	2,454	29,652
Jun	96-03	95-27	-	96-05	95-27	177	11,291

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	108.10			108.23	107.99	2654	0
Mar	107.43			107.43	107.25	126	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Nov 2	Day's change %	Tue Nov 1	Accrued interest	xd adj. ytd		Low coupon yield Nov 2	Low Nov 1	Low Yr. ago	Medium coupon yield Nov 2	Medium Nov 1	Medium Yr. ago	High coupon yield Nov 2	High Nov 1	High Yr. ago
1 Up to 5 years (24)	119.01	-0.01	119.03	1.42	9.83	5 yrs	8.70	8.69	8.15	8.72	8.65	6.37	8.90	8.84	6.50
2 5-15 years (23)	138.22	-0.48	138.88	1.77	11.00	15 yrs	8.60	8.52	7.09	8.74	8.66	7.18	8.97	8.89	7.36
3 Over 15 years (6)	154.85	-0.76	156.05	2.46	10.57	20 yrs	8.55	8.47	7.15	8.74	8.66	7.22	8.85	8.79	7.38
4 Irredeemables (6)	174.03	-0.53	174.96	0.10	13.47	Irred.†	8.61	8.55	7.29						
5 All stocks (61)	135.70	-0.37	136.20	1.75	10.65										

Index-linked	Wed Nov 2	Day's change %	Tue Nov 1	Accrued interest	xd adj. ytd		Inflation 5% Nov 2	Nov 1	Yr. ago	Inflation 10% Nov 2	Nov 1	Yr. ago
6 Up to 5 years (2)	185.63	-0.10	185.82	0.42	5.07	Up to 5 yrs	4.06	4.01	2.33	2.91	2.85	1.51
7 Over 5 years (11)	172.83	-0.15	173.10	0.87	4.36	Over 5 yrs	3.89	3.87	3.12	3.70	3.68	2.95
8 All stocks (13)	173.28	-0.15	173.54	0.82	4.41							

Debentures and Loans	Wed Nov 2	Day's change %	Tue Nov 1	Accrued interest	xd adj. ytd	5 year yield Nov 2	Nov 1	Yr. ago	15 year yield Nov 2	Nov 1	Yr. ago	25 year yield Nov 2	Nov 1	Yr. ago
9 Debs & Loans (77)	127.06	+0.19	126.83	2.44	9.29	9.77	9.76	7.75	9.70	9.71	8.15	9.68	9.65	8.29

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 2	Nov 1	Oct 31	Oct 28	Oct 27	Yr ago	High*	Low*
Govt. Secs. (UK)	90.89	91.06	91.04	91.21	90.58	102.87	107.04	89.54
Fixed Interest	107.56	107.64	107.74	107.31	106.84	123.99	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 1	Oct 31	Oct 28	Oct 27	Oct 26
Gilt Edged bargains	78.6	80.2	72.7	81.1	90.9
5-day average	80.5	82.6	79.6	83.4	84.4

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Shorts" (Lives up to Five Years)							
Treas 9pc 1994‡‡		8.99	-	100⅛xd	-	103⅛	100⅛
12pc 1995		11.84	5.75	101⅜	-	107⅛	101⅜
Exch 3pc Gas 1990-95		3.04	5.84	98⅔	-	98⅔	97¼
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Funding 3½pc 1999-4		4.81	7.52	72¼	-⅛	86⅛	69¼
Conversion 9½pc 2004		9.11	8.84	104¼	-⅛	125⅛	101⅛
Treas 6¾pc 2004‡‡		7.77	8.74	86⅔xd	-⅛	105⅛	84⅔
8½pc 2005		8.56	8.73	99⅛	-⅛	100⅛	97
[illegible]							

	Notes	Yield (1)	Yield (2)	Price £	+ or -	1994 High	1994 Low
Index-Linked	(b)						
2pc '96	(67.9)	2.84	4.22	189¼	-⅛	203⅛	197⅛
4⅝pc '98‡‡	(135.6)	2.94	3.78	108⅛	-⅛	113⅛	106⅛
2½pc '01	(78.3)	3.45	3.87	165⅛	-⅛	178⅛	163⅛
[illegible]							

Other Fixed Interest

[illegible]

• 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on November 2

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 00	1000	97¾	98	-⅛	8.57
Alberta Province 7⅝ 98	1000	99	99¼	-⅛	7.93
[illegible]					
United Kingdom 7⅛ 97	5500	100⅞	101		6.79
Volkswagen Intl Fin 7 00	1000	93⅝	94	-⅛	8.05
World Bank 0 15	2000	20	20¼		7.91
[illegible]					
Abbey Natl Treasury 8 99 £	1000	91⅛	91½	-⅛	9.57
Alliance Leics 11⅜ 97 £	100	105¾	106⅝	-⅛	8.88
British Land 8⅞ 23 £	150	87⅝	88⅛	-⅝	10.47
[illegible]					

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

First get-together since the shift in the balance of power

Realigned Lonrho board meets

By Robert Peston

Lonrho, the international trading group whose joint chief executives, Mr Tiny Rowland and Mr Dieter Bock, have been at war with each other, will today hold its first board meeting since the retirement of two of Mr Rowland's closest allies.

The retirements have shifted the balance on the board in favour of Mr Bock in his struggle against Mr Rowland. An associate or Mr Rowland said yesterday that today's meeting would be significant in showing how Mr Bock intended to exploit this power.

Mr Bock launched an abortive coup two months ago to oust Mr Rowland from his executive duties. However, hours before September's board meeting Mr Bock backed off from proposing that Mr Rowland should step down when he became concerned that he could not count on the support of a majority.

A number of Lonrho's directors belatedly took fright from challenging Mr Rowland because they were concerned that he would challenge any attempt to oust him through the courts.

Today's meeting is the first to be chaired by the new temporary chairman, the former diplomat Sir John Leahy. He replaces Mr Rene Leclezio, one of Mr Rowland's staunchest allies, who retired last month. Another of Mr Rowland's most loyal supporters, Mr Robert Dunlop, also retired recently.

It is widely believed within Lonrho that Mr Rowland would sever his 30-year relationship with the company if Mr Bock, owner of 18.8 per cent of Lonrho's shares, offered him a £50m premium over the market price for his 48.6m shares. However Mr Bock is thought not to be prepared to pay that price.

Today's meeting is also the first since the disclosure last week in the Financial Times that Mr Rowland had embroiled the company in a new court case brought by its erstwhile corporate opponent, Mr Mohamed al-Fayed, by providing an indemnity to a former employee of Mr Fayed, Mr Graham Jones, who allegedly defected to Lonrho.

Mr Fayed is suing Mr Jones for breach of confidence and is therefore also in effect suing Lonrho. It is particularly embarrassing for Lonrho that it should find itself on the opposite side of a case brought by Mr Fayed, because it is only a year since they settled their bitter and costly legal battle over the manner in which Mr Fayed purchased House of Fraser in 1985.

According to an associate of Mr Rowland, the indemnity is likely to be discussed by the board meeting.

Mr Rowland will insist that he has not damaged Lonrho because he will say that Mr Fayed is once again his friend and would not pursue the action if it was seen to be hurting him.

BAe reserves right to lift VSEL bid

By Tim Burt

British Aerospace yesterday refused to rule out making a revised offer for VSEL, the nuclear submarine maker. Mr Bob Bauman, chairman, told BAe shareholders that although it expected GEC's rival £532m offer to be blocked on competition grounds, BAe reserved the right to increase its own bid.

"Our offer is an open one, which doesn't prevent an increase," he said.

Two and a half weeks ago, BAe offered 2.474 shares for each VSEL share with a cash alternative of £11.40. At BAe's closing price yesterday, down 2p at 450p, the bid values each VSEL share at £12.36.

Mr Bauman, however, claimed that the VSEL board would recommend the BAe offer ahead of GEC's cash bid because it would secure the future of its Barrow shipyard and open new markets for its land-based defence systems.

"It is also in the best interest of VSEL as it poses no competition concerns for defence procurement in the UK," he said.

Shareholders approved a resolution allowing BAe to proceed with the offer, despite a series of questions to the board over a clause allowing it to extend or amend the bid.

Mr Richard Lapthorne, finance director, sought to reassure investors that a revised offer might not be necessary by pointing out that if BAe's share price rose by 60p the current bid would be worth £14 a share.

Justifying the proposed acquisition, he added that VSEL profits would reduce BAe's tax rate from 33 to 25 per cent and greatly strengthen its balance sheet.

See Observer

Confident in the ability to deliver

John Weston puts BAe's case for taking over VSEL to Bernard Gray

The battle over VSEL, the Barrow-based submarine maker, is starting to get aggressive. In part that is because the fight is not just about the future of one shipyard in Cumbria, but about the future direction of the entire UK defence industry. And as it is so important, it is a fight which neither side can afford to lose.

So what kind of industry will it be and will British Aerospace or GEC lead it?

Mr John Weston, chairman of British Aerospace's defence arm, speaks with obvious conviction about who should be in the driving seat. "If the government has to pick a national champion in defence, then I think leadership by GEC is not the best solution."

His view is that British Aerospace has the right skills, right products and the imagination necessary to succeed in the increasingly complex world of defence manufacturing. For good measure he adds that while BAe has had its fair share of problems with its civil operations, its defence arm has been consistently profitable with good margins and is 50 per cent larger than GEC's defence operation.

"Systems integration and the ability to manage prime contracts are the most important areas for a defence company now," he argues.

Mr Weston's point is that modern military systems are so complex that controlling the process of putting the parts together is as important as the ability to design new equipment itself.

With the ministry of defence pushing more of the financial risks of developing and manufacturing equipment on to defence companies, the skill of being able to control a project with hundreds of subcontractors and suppliers, and millions of components, is vital for profitability. These are two skills which, he claims, BAe has in abundance.

"Things have changed enormously over the past 50 years. The Spitfire was probably designed by a team of at most 50 engineers. We have between 4,000 and 5,000 people working on the Eurofighter design. It is no longer possible to talk of individuals designing aircraft. You need the systems to be able to control that hugely complex process."

In the case of VSEL, the job of bringing together the electronics, nuclear reactor, sonar, weapons and manufacture of the pressure hull of a submarine and making them work is a similar job to the production of a fighter aircraft. Hence Mr Weston's belief that, despite the obvious differences between silent submarines and fast jets, BAe is well placed to run the shipyard.

On the wider issue of the future of the defence industry in Europe, Mr Weston is looking to strengthening cross border alliances, and as prime contracting skills are the most important element, he thinks BAe is well placed to take a leading role.

In military affairs "European integration is going on, none of the armed forces can now afford a fully independent set of skills, and they are becoming interdependent. Industry is following that trend."

The process has been slower in Europe than in the US, where mergers and rationalisation have been happening at breakneck pace. There is also a strong suspicion among many observers that when continental Europeans talk about rationalisation, they mean someone else.

"The UK has started to grasp the rationalisation issue. Some of our continental partners have taken a little longer to get there, but there is now a consciousness that change is necessary," he says.

Some moves towards cross-border links are already happening. BAe is negotiating to merge its missile business with Matra of France. It has also looked at a merger of its Royal Ordnance operation with Giat, the French ammunition manufacturer.

Mr Weston also points to the way BAe's military division has retrenched in the 1990s as proof that the company has taken the hard decisions. "In the past five years we have reduced the number of people in our military business from 66,000 to 31,000, at the same time as increasing sales by 10 per cent."

According to Mr Weston, BAe is also doing all the other Good Things which any switched-on manufacturer must do to survive in the 1990s. "We have had a major drive to find out what our customers want and give it to them. We are now trying to get the most out of our people, and encouraging them to learn from other parts of the business and outside. We want to eliminate the 'not invented here' mentality which can be so damaging."

In the end, however, doesn't GEC's greater financial muscle give it an enormous advantage over BAe? If it does, Mr Weston professes not to be impressed. "Financial strength is undoubtedly helpful. But the defence business is not ultimately about financial strength and making black boxes. It is about delivering systems to spec and on time."

John Weston: BAe's defence arm has been consistently profitable

New Look postpones flotation plans

By Christopher Price

The adverse market conditions for new issues were yesterday blamed for yet another postponement when New Look, the Dorset-based women's wear chain, cancelled its flotation plans.

The company, which had been hoping for a market value in excess of £150m, was due to announce the pricing of its shares today.

Schroders, the company's advisers, said: "In this negative environment, people were looking for any excuse not to invest. They couldn't believe that its rate of success could continue."

Fund managers approached by the company and its advisers in the past couple of days said they had been offered the shares at a 30 per cent discount to the retail sector – a surprising figure even in the current subdued environment for new issues – and had turned them down.

One institutional investor said: "I had reservations about the management, the management structure and the rate of expansion, it's as simple as that." Another added: "With such high margin rates, we were concerned over any further room for growth."

Some 35 per cent of the equity was due to come to the market through a placing and intermediaries offer. The flotation was to have raised about £10m of new money.

New Look, which has 224 shops, is aimed at the lower end of the women's fashion market. It has more than tripled operating profits and turnover in the past three years. Profits of £11m last year were almost matched by the £9.92m posted for the six months to September 24. Operating margins were 16.9 per cent.

The company, founded in 1969, is owned by the Singh family, with Mr Tom Singh, the deputy chairman. Other members of the board included Mr Louis Sherwood, the non-executive chairman, who was appointed in September.

Another non-executive was appointed last month, as was the finance director, Mr Peter Phillips, formerly of Hepworth and British Nuclear Fuels.

BET rises to £58m amid signs of better margins

By Andrew Bolger

BET, the business services group, reported a 25 per cent increase in pre-tax profits from £46.1m to £57.7m for the six months to October 1, and said it was seeing signs of improvement in its profit margins.

Turnover fell from £880m to £864m, but last year's figure included businesses sold in the first half. Excluding disposals, sales rose by 1 per cent.

Operating profits rose to £55.7m (£49.3m). Earnings per share grew to 4.5p (3.3p) and the interim dividend was increased to 1.2p (1p).

Mr John Clark, chief executive, said: "The increase in published earnings and the early signs of improvement in overall gross margins are both encouraging.

"We continue to seek improvements in productivity which will offset cost inflation and price pressure. These actions are key to 1994-95 earnings growth."

Capital expenditure in the first half more than doubled to £78m. Net cash at the period end was £18m, against £9m last September and £67m at the year end in April. Shareholders' funds increased to £288m, against £260m at the year end.

Mr Keith Payne, director of finance, planning and development, said the group had spent £2m on bolt-on acquisitions during the first half. He expected to conclude several deals during the second half.

Mr Clark said in May that the group was willing to consider acquisitions again after a long period of divestments. He said yesterday that he would be prepared to let gearing rise to about 30 per cent, if the right opportunity arose.

A £5.2m gain on disposals was offset by a further £7m of rationalisation costs.

Business services – comprising cleaning, personnel, security, catering and facilities management – saw sales increase 2 per cent to £370m, although operating profit fell 14 per cent to £11m.

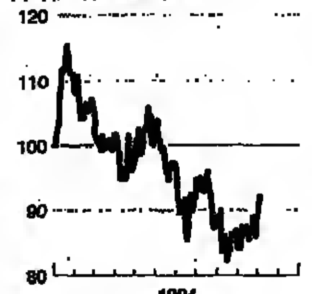
Distribution services increased operating profit by 19 per cent to £15.6m, led by the US tanker and Zimbabwean distribution businesses.

Plant services increased operating profit by 13 per cent to £20.5m, excluding asset write-offs in the prior year. Turnover fell by 9 per cent to £190m.

Turnover from textile services fell 2 per cent to £119m and operating profit was down 10 per cent to £17.2m.

BET

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphite

● COMMENT

Mr Clark gets credit in the City for stabilising BET, which overstretched itself by a series of acquisitions in the 1980s. The question is: where does it go from here? Since the chief executive joined in 1991, disposals and rationalisations have reduced the group from 180 operating companies to 59 profit centres. Mr Clark is now talking about "growth over time", which suggests there will be no swift bounce in the group's performance. Forecast full-year profits of £105m put the shares, up 3p yesterday to 114½p, on a prospective multiple of 13.5 – a small discount to the market. The shares are unlikely to move significantly unless and until BET demonstrates that its remaining businesses really can deliver improved productivity and profits.

Half of BZW staff may be moved to Canary Wharf

By Robert Peston

Barclays de Zoete Wedd, the investment banking subsidiary of Barclays, yesterday told its 3,500 staff that more than half of them were likely to be relocated to Canary Wharf in East London.

In an internal memorandum, it told employees that it was in negotiations to rent two trading floors, or about 500,000 sq ft of space.

The deal would be a boost for the east London property development, which was refinanced by its banks last year and came out of administration. It was built by the Canadian developer, Mr Paul Reichmann, at the turn of the decade.

BZW's decision to reconsider Canary Wharf will surprise many in the City, because only last month it had widely reported that it had decided not to move there.

However, Mr Martin Taylor, Barclay's chief executive, said the previous decision was that the whole of BZW should not move so far from the City. However, there was a strong case for moving staff to Canary Wharf who did not need to meet clients regularly.

Among departments likely to move are: markets, which include bond, foreign exchange and money market trading, and debt capital markets, which combines the creation and trading of derivative products.

The firm's corporate finance and equity departments are likely to remain closer to the City. They are expected to occupy Royal Mint Court, the refurbished eighteenth century building already occupied by Barclays' senior management.

Mr Taylor said that the decision of where to house the investment banking firm was one of the most difficult he had faced since joining the bank last year.

Barclays was one of the main lenders to Canary Wharf and has suffered significant losses on its loans to the project.

Manchester United plans to expand stadium

Manchester United yesterday confirmed plans to expand the capacity of its Old Trafford stadium by 22 per cent to 54,000.

The company refused to reveal how it would finance the expansion or how much it would cost, saying the application for planning consent was only a preliminary step.

It is expected to use part of its £13.6m cash reserves to fund the development and acquisition of adjacent land.

Shareholders, however, will be asked to reconfirm the directors right to launch a rights issue, according to the annual report published yesterday.

The accounts also showed that Mr Martin Edwards, chief executive, received a 23 per cent pay increase from £174,000 to £214,000 in the year to July 31.

Tele-Cine Cell to join market with £20m tag

By Paul Taylor

Shares in Tele-Cine Cell have been priced at 170p, valuing the Soho-based group at £20m. The video editing and special effects group whose recent projects have included Guinness's 'glass universe' commercial, is coming to market via a placing of 4.7m shares, representing 40 per cent of the expanded capital.

Half the shares are being sold by existing shareholders including the group's joint managing directors, Mr John Rowland and Mr Paul O'Hagan, who will each retain a 13.5 per cent stake. They will make a little more than £900,000 each and Mr John Craves, co-founder of Tele-Cine, will receive about £2.2m.

The remaining 2.25m shares are being issued by the group to raise £4m new funds. This will be used to reduce borrowings and provide working capital.

The group is divided into two main businesses, both of which operate in fast growing high-technology markets.

Tele-Cine undertakes film transfer, video editing and sound mixing, together with tape transfer, standards conversion and archiving. Cell uses motion control filming, 3D computer graphics and digital editing systems to create special effects sequences.

The group continued to grow organically through the recession and capital expenditure has amounted to £8.3m in the last 3½ years.

Last year the group made pre-tax profits of £1m (£778,000) on turnover of £9.69m (£8.1m). Profits grew to £1.28m in the six months to June 30 on turnover of £6.19m. Directors have forecast full-year pre-tax profits of not less than £2.2m.

On the basis of the forecast earnings per share for the year the flotation price represents a prospective multiple of 11.8. Dealings are expected to begin on November 10.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Bellway	fin	4.8	Jan 23	4‡	7	6‡
Broadgate Inv	fin	1.8	Dec 23	1.8♥	1.8	1.8
Cooper (Fred)	fin	1.7	Feb 1	1.5	2.5	2.2
Copymore §	fin	1.7	Jan 10	1.5	4.3	4
Mezzanine Cap	int	7	Dec 15	5.5	-	16.75★
Sainsbury (J)	int	3.2	Jan 18	3	-	10.8
Scott Nat Trust	fin	2.1	Dec 31	2.1	7.5	7.75ф

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Adjusted for share subdivision. фIncludes 0.25p special dividend. ♥For 14 months. ★Includes special dividend of 4p.

PUBLIC WORKS LOAN BOARD RATES

Effective November 1

	Quota loans*					
	"Lower" quota rates			"Higher" quota rates		
Years	EPT	ATT	maturity	EPT	ATT	maturity
1	-	-	5¾	-	-	6⅞
Over 1 up to 2	7	7⅛	8	7⅛	7¼	8⅛
Over 2 up to 3	7¾	7⅞	8⅛	7¾	7⅞	8¾
Over 3 up to 4	8⅛	8¼	8⅞	8⅛	8⅜	9
Over 4 up to 5	8½	8½	9	8⅝	8⅝	9⅛
Over 5 up to 6	8⅝	8¾	9	8¾	8¾	9¼
Over 6 up to 7	8¾	8⅞	9⅛	8⅞	9	9⅜
Over 7 up to 8	8⅞	8⅞	9⅛	9	9	9⅜
Over 8 up to 9	9	9	9⅛	9⅛	9⅛	9⅜
Over 9 up to 10	9	9	9¼	9¼	9¼	9⅜
Over 10 up to 15	9⅛	9⅛	9⅛	9¼	9¼	8½
Over 15 up to 25	9¼	9¼	8⅞	9½	9½	9¼
Over 25	9	8⅞	8¾	9⅜	9¼	9⅛

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. ‡‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Deal involving investment of up to $300m expected in few months

Zeneca seeks US healthcare links

By Daniel Green

Zeneca, the drugs company is considering forming joint ventures with US healthcare suppliers as an alternative to the multi-billion dollar acquisitions made by rivals such as SmithKline Beecham.

A deal involving either a joint venture or close links with a US healthcare company is likely within four months.

It would probably involve a cash commitment of between $200m and $300m (£190m) over several years.

Creating a free-standing joint venture would be an unusual approach to dealing with the newly cost-conscious US healthcare industry.

The highest profile strategies so far have been from SmithKline and two US companies, Merck and Eli Lilly. Between them the two US companies have spent more than $12bn in 15 months on buying Pharmacy Benefit Managers (PBMs) and Health Management Organisations (HMOs). These are two types of business which negotiate deals with hospitals and drug makers on behalf of employers who pay health insurance premiums for employees.

But last month's decision by the US Federal Trade Commission to impose conditions on the Eli Lilly purchase has put the whole acquisition strategy in question.

Zeneca is in talks with several HMOs on a tie up. It has established Stuart Disease Management in the US.

Disease management programmes are attracting increasing interest in the US. The idea is that patient care should include the provision of non-drug treatments, such as diet regimes and screening programmes.

Zeneca's biggest-selling product is Zestril, the heart drug. The company also produces low-fat, low-salt foods – of the kind recommended for many heart disease sufferers – that could find new markets in healthcare.

Mr David Barnes, Zeneca chief executive, said yesterday he wanted to keep open options that would be closed by a large purchase.

He said the approach pioneered by US company Pfizer, which this year set up a $100m disease management programme with HMO Value Health, was a good model.

Zeneca has already signed three preliminary contracts with HMOs. The work they will undertake, under a system called capitation, is designed to "share the risk in healthcare," said Mr Barnes.

Under the system a company receives a flat fee for treatment per head of population rather than a per treatment payment.

BS attacks continental subsidies

By Andrew Bolger

British Steel has said that it is being put off from investing in the UK and the rest of Europe by the subsidies allowed to competitors on the continent.

Mr Brian Moffatt, chairman and chief executive, told a Commons trade and industry committee that these subsidies would undermine British Steel's profitability as UK economic growth slowed.

He said: "To take on companies whose losses are subsidised is something we are not capable of doing."

Mr Moffatt told MPs that if these subsidies continued, his board felt that there were much more attractive areas in which to invest. He cited the group's recent decision to build a $97m mini-mill at Tuscaloosa Steel, its Alabama subsidiary.

British Steel, Europe's second largest producer after France's state-owned Usinor Sacilor, has strongly opposed aid to public companies to help them restructure.

It has even launched an action against the European Commission at the European Court of Justice, accusing it of breaking its own rules on subsidies.

An EC plan to restructure the industry collapsed last week after steel companies did not come up with the cuts in capacity required for the project to proceed.

Mr Moffatt also said the future for the industry was bleaker.

"The economy is moving forward at the moment, but when the next slowdown comes, if the subsidy argument is not put to bed now, it will be back with us in a few years' time."

This argument was echoed by Mr Ian Blakey, director-general of the British Iron and Steel Producers Association.

He said: "We must be storing up trouble for the next recession. We must stamp out subsidies and let the market take its course and it will take its course during the next recession."

Mr Moffatt urged the UK government, which cut British Steel off from aid in 1985, to act as a referee on state aid in the European Union and be consistent about its stance on the issue.

London Fiduciary £6m gold deal

London Fiduciary Trust, which former England cricketer Mr Phil Edmonds aims to build into a substantial gold producer, has acquired a heap-leach gold project in the Philippines from Runruno Mining Corporation for £6m.

The purchase is to be satisfied by the issue of LFT shares at 5p each, compared with yesterday's market price of 2¾p-3¼p. The vendors have agreed to retain these shares for at least a year from the date of issue.

LFT said an independent appraisal of the Runruno project suggests it has reserves for annual production of 50,000 troy ounces of gold for eight years at an estimated production cost of less than US$200 an ounce.

The independent consultants, London Mining and Metal Consultants, placed a net present value of $25.46m on the project.

Butte issues amendment to 1993 accounts

By Jim Kelly, Accountancy Correspondent

Butte Mining, the London-listed company whose main activity is pursuing US lawsuits, has amended its accounts after discussions with the Financial Reporting Review Panel – the accounts watchdog.

Butte, which is seeking $1bn (£600m) in damages from former managers and promoters, has issued a supplementary note relating to its accounts for the year to June 1993 in its 1994 report and accounts.

The panel's statement, the 24th it has issued as a watchdog since its foundation in 1991, expresses concern that a bank overdraft of £750,000 was shown in the balance sheet as *falling due after more than one year*.

In Butte's opinion the overdraft could not be shown as falling due within a year and still give a true and fair view of the company's affairs.

It claimed the overdraft payment was entangled with a Montana law suit and could not fall due within a year. The company, however, did not want to "become party to a test case".

On two other counts the company had invoked the true and fair override with respect to the cash flow statement but the panel considered the treatment incorrect.

It noted that a £560,000 sale of an equity investment was not shown in the cash flow statement but was "incorrectly" treated as a cash equivalent. Also, a repayment loan of £500,000 was not shown because it was "incorrectly" treated as a cash equivalent.

Recovery continues at Frederick Cooper

By Peter Pearse

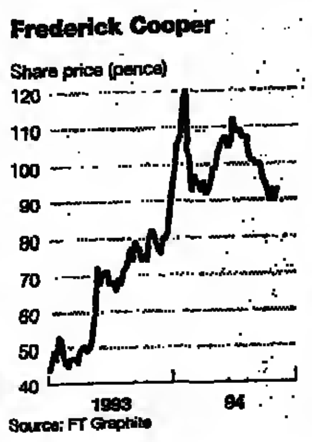
Frederick Cooper, the architectural hardware, metal finishing and electrical products group, continued its recovery with a 30 per cent advance in annual pre-tax profits from "underlying operations" to £5.45m.

On an FRS3 basis the rise was greater at 53 per cent to £6.31m (£4.12m) for the year to July 31. Turnover grew to £89.1m (£84.3m).

The focusing on core businesses continued with the sale of Cooper Handling in June for £1.46m. This resulted in a £896,000 exceptional profit. Mr Ed Kirk, chairman, said the surplus gave a distorted impression of group progress.

Since the year-end, Futters (London), an electrical component company was sold for £3.75m. Three businesses in the *electrical products division* remained, generating only £7m of turnover. He expected to dispose of at least one within the next 12 months.

Frederick Cooper



Source: FT Graphite

In spite of the profits rise and a 3 per cent increase in first-quarter sales in the current year, Mr Kirk remained cautious on prospects.

He said the UK economy remained fragile and the architectural products side, which *makes* locks and other door and window fittings, catered for the "back end of the construction market". Also, in the past 12 months the price of aluminium had risen 30 per cent; steel had risen 6 per cent since the start of the year and would rise another 6 per cent in January; and European polymer prices had risen 10 per cent. Cooper was now also sourcing from Brazil and altering its plastic compounds "mix" to help circumvent this.

In the architectural hardware division, profits jumped to £1.56m (£570,000) on turnover up slightly at £50.1m (£49.6m). In metal finishing, profits were £3.13m (£2.8m) on turnover of £24.4m (£20m). Organic growth for the group would come in the US metal finishing side, said Mr Kirk, with any acquisitions also in that area.

At the year-end borrowings were £7m; they were now less than £5m and by July 1995 were expected to be about £2.5m.

Basic earnings on underlying operations were 6p (3.5p) and under FRS 3 8.2p (3.4p). The final dividend is lifted to 1.7p (1.5p) for a total of 2.5p (2.2p).

NEWS DIGEST

Jermyn declines to £55,000

Jermyn Investment, the property investor, reported pre-tax profits for the half year to June 30 lower at £55,000, against £77,000. Net property income rose from £371,000 to £380,000.

The figures related to the period before the recent £12.5m placing and open offer and acquisitions as part of the company's expansion plans. It said yesterday that a number of transactions were being considered which might lead to further *purchases* before the year-end.

Earnings per share were 1.8p (2.75p) or 1.19p (1.83p) fully diluted. The £300,000 arrears on the preference shares have been declared and the payment of a dividend, which has not been paid since 1991, will be considered at the year-end.

Amstrad

Mr Alan Sugar, chairman of Amstrad, has increased his stake by 4,400 ordinary shares, under the distribution of the estate of the late Mrs Fay Sugar, his mother. Mr Sugar is now interested in 205.6m shares (35.4 per cent).

Fleming Chinese Inv

A fall in China related stocks led to a decline in net asset value at the Fleming Chinese Investment Trust, down to 84.95p on the September 30 year end.

This was 12.6 per cent below the post launch net asset value on October 19 1993.

Available revenue came out at £487,000 for earnings per share of 0.81p. A final dividend of 0.5p is recommended.

Celtic Gold

Celtic Gold, the Irish mineral exploration company, reported pre-tax losses of I£217,900 (£215,000) for the half year to June 30, against I£302,002 for the previous 12 months.

The *result included an exceptional* charge of I£212,911 (I£268,493) relating to the costs of a placing and the sale of Clare Calcite, together with expenses incurred in connection *with the unsuccessful* offer for Coyle Hamilton, the insurance broker.

The directors said they were examining further possible opportunities in the financial services sector and expected to report to shareholders on their discussions shortly.

Claddagh Gold sold its 54 per cent stake in Celtic to English Trust during the period, since when the shares have been suspended.

BCE acquisition

BCE Holdings, the USM-traded snooker and pool products distributor, has named Software Creations (Holdings) as the company it is to acquire along with Rage Software for £14m.

The acquisition of the two companies will take BCE into the electronic games industry and more than treble its size.

Hall Engineering

Hall Engineering's enhanced scrip dividend has been accepted in respect of 23.6m shares or 77.9 per cent of the issued share capital. Of those Kleinwort Benson's cash offer has been accepted in respect of 42 per cent or 9.84m shares.

Broadgate Inv Trust

Net asset value per share at Broadgate Investment Trust fell from 123.62p to 119.73p over the 12 months to September 30. The fully diluted figures *showed a fall from 119.68p to* 116.44p.

Net revenue for the year was £89,574, compared with £108,040 for the previous 14 months from its listing. Earnings per share were 1.79p (2.16p) and a single final dividend of 1.6p (1.8p) is proposed.

RPS £1.9m buy

RPS, the USM-quoted environmental consultancy, is to acquire three subsidiaries of MTS *International* for £1.9m. The acquisition will be funded by a placing and open offer of 2.92m shares at 65p each.

Qualifying shareholders will be invited to apply for shares on a 1-for-4.1535 basis.

The three companies, Thomson *MTS in Milton Keynes*, NOHS in Manchester and Environmental Monitoring (Scotland), comprise the environmental section of MTS International, which is part of *the metal technology division* of Bodycote International. Their combined operating profits for 1993 were £463,000.

Mezzanine Capital

The net asset value per capital share of Mezzanine Capital and Income Trust 2001 stood at 312.7p at the September 30 interim stage, against 295.3p six months earlier and 273.4p a year ago.

Available revenue for the period amounted to £1.33m (£1.56m) giving earnings of 7.33p (6.96p) per income share. The interim dividend is raised to 7p (5.5p).

The trust recently sold its investment in Polaris Pools Systems and two US investment companies for $25.7m (£16.2m). It has also invested some $14.5m in securities of NRE Holdings, operator of 80 Burger King outlets in the US.

Fleming raises £25m

Fleming has so far raised £25m during the placing stage for its Natural Resources investment trust, which will specialise in companies involved in extracting, cultivating and processing commodities worldwide.

A public offer to raise up to a further £25m closes on November 23.

The trust will have a life of between two and a half and five years, to make the best use of the commodities cycle.

A commodities investment *trust launched last month* by BZW raised £78m from a placing and public offer.

Dakota agrees offer

Dakota Group, the USM-quoted maker of packaging products, has recommended an offer made by CBW, a company controlled by Mr Colum Kelleher, Mr William Carlisle and Mr Brendan Mowles, all executive directors of Dakota.

CBW has received acceptances *totalling 92.58 per cent* of Dakota's issued shares.

Capital Gear Trust

Capital Gearing Trust reported net asset value per share down at 510.1p at October 6, against 522.5p six months earlier.

Net revenue for the half year to October 5 was £5,972 compared with losses of £14,873, for earnings per share of 0.33p (losses 1.34p).

Bellway's 67% rise beats City forecasts

By Richard Wolffe

Shares in Bellway rose 14p to 208p yesterday as the house-builder outstripped City forecasts to announce a 67 per cent increase in pre-tax profits for the year to July 31.

Pre-tax profits rose to £28m (£16.7m) on turnover up 37 per cent at £201.3m (£147.2m). Operating margins were lifted from 10 to 13.5 per cent.

Mr Kenneth Bell, chairman, said the company's performance was the result of "our policy of controlled expansion of the management, the organisation and the land portfolio throughout the recession".

The middle-market group sold 3,010 homes, a rise of 31 per cent, at an average price which rose 6 per cent to £65,000.

Mr Alan Robson, finance director, said: "Our sales are 20 per cent up in the current year. We have been expanding over the last four years by about 25 per cent per annum and I think there is good momentum in the market at the moment."

He added that the company expected prices and margins to remain static this year.

Cash fell from £44.3m to £6.42m as the group purchased £100m of land at low prices last year. Year-end net cash stood at £1m (£44m).

Bellway has some 12,000 plots with planning permission, representing more than three years' building. The company further committed itself to £18m of land in tha first three months of the year.

The group won £15m of City Grant awards to build 649 units in Manchester and 479 units in London. The latter is part of a long-term development to build 5,500 houses in Barking.

Earnings per share rose 63 per cent to 17.3p (10.6p). The board proposes a final dividend of 4.8p to make a total of 7p, compared with 6p last year.

● **COMMENT**

Bellway seems to have weathered the recession with a healthy balance sheet and strong sales. Yesterday's figures owe much to the group's shrewd purchasing policy, which should allow consistent growth this year. It is now expected to gear up to about 30 per cent to maintain its purchasing programme. Pre-tax profits are forecast at £32.5m, which gives a fairly low p/e of 10. Given the group's steady performance in recent years and growth prospects, this looks like an undeserved discount to the sector.

The preferred route to recovery

British Coal's cast-off could be Anglo's salvation, reports Peggy Hollinger

Anglo United shareholders could not believe their eyes when they read their newspapers on Tuesday morning.

The company they have supported through two debt restructurings and a rescue rights issue had been nominated by British Coal and its adviser Price Waterhouse as one of four preferred bidders for its smokeless fuels subsidiary, Coal Products.

If it succeeds, Anglo will certainly have to restructure the debt yet again and call on shareholders to finance the acquisition. It is thought Anglo has offered between £60m and £90m in the initial bidding round for Coal Products, all of which will have to come from shareholders.

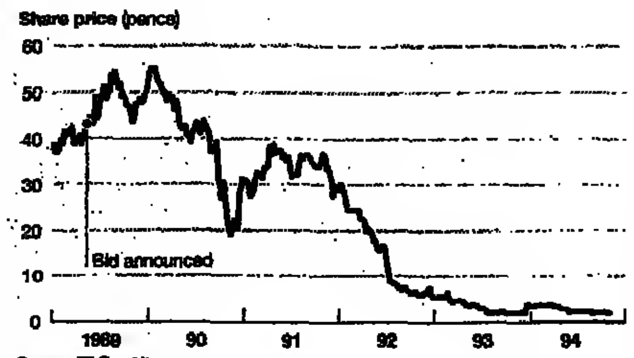
On the surface, Anglo's preferred status appears surprising. The company has incurred losses for the past two years and has negative shareholders' funds of about £146m.

In the words of one Anglo executive, gearing is out in the stratosphere. Debt remains a weighty £96m and no dividends are expected to be paid until borrowing ratios return to earth. The shares were last trading at about 2p.

Nor does the company's history provide much comfort. It made headlines in the late 1980s with its £500m hostile takeover of Coalite, one of the UK's last great leveraged bids.

Anglo United

Share price (pence)



Source: FT Graphite

The bid was the brainchild of Mr David McErlain, Anglo's former chairman, whose Coal Developments company is also one of the preferred bidders for Coal Products. He intended to pay off the debt incurred by the Coalite takeover by selling off the target's peripheral businesses.

Unfortunately, recession and problems encountered in selling assets hindered his plans, and by 1991 the company was forced to defer loan repayments.

Over the next two years, Anglo launched a £25m rescue rights issue to pay off a bridging loan and two debt restructurings. The most recent, completed last year, left the banks owning half the company. Hongkong and Shanghai Banking Corporation is the largest shareholder with 40 per cent.

The banks have beeo crucial to Anglo's success in passing the initial tests in the bid for Coal Products. They are understood to have given assurances of support for the required equity funding and debt restructuring.

It is likely that for Anglo to become the sole preferred bidder, it will have to have the debt restructuring and plans for a rights issue ready to go by the end of the year.

The restructuring is likely to be a complex issue. While winning Coal Products could go some way to reducing the deficit in shareholders' funds, a substantial debt for equity swap is almost certain to be on the cards yet again.

Anglo refuses to comment on its bid or the comfort it might have received from shareholders. However, winning Coal Products could give it the vital breathing space it needs to find its feet.

Coalite is its most profitable business. Yet the smokeless fuel market is declining as consumers' switch to gas-fired central heating. Still, the business is highly cash generative and the synergies with Coal Products could be substantial.

Anglo's need to squeeze value out of a declining market, if it is to survive, could give it a substantial edge in the bidding. Shareholders might, perhaps, be motivated to support a higher bid as a result.

Ordinary shareholders do not appear to care why Anglo has been included in the shortlist. They are delighted. "The key point is that the banks did oot just say let's squeeze every last drop out of the company until it's dry and walk away," said ooe investor. "They have been prepared to work their way out of the situation, give the company time to breathe and take it forward. We are very happy."

Ashley Ashwood

Food price inflation rise feared

Mr David Sainsbury, above, chairman of J Sainsbury, the UK'a biggest food retailer, warned that levels of food price inflation were likely to rise slightly in the coming mooths, although price competition would remain intense, writes Neil Buckley.

Mr Sainsbury said the group had experienced selling price deflation of about 0.6 per cent in the first half of the year largely as a result of its "Essential for Essentials" price-cntting campaign, involving permanent price reductions on own-label goods.

So far in the second half, sales inflation was running at 0.2 per cent, and the rate was likely to increase slightly as Sainsbury reached the anniversary of the "Essentials" campaign.

Mr Sainsbury said the campaign had "effectively led down prices and gross margins" for basic prodncts "throughont the food retail sector", putting pressure both on superstore competitors and on discount chains.

Demand for end to loan link abuses

A group of businesses which claims to have paid a total of almost $4m (£2.5m) in retainers in the hope of raising finance which never materialised has attacked the government for failing to regulate brokers who promise to introduce individuals to funders.

The Turnberry/Bond Street Pressure Group has written to authorities including Mr Michael Heseltine, the trade and industry secretary. Ms Maureen Pasterfield, chairperson of the group, calls on the government "to close the loophole which has caused so much suffering to British businesses".

Pressure group members paid fees to corporate brokers who said they could introduce clients to syndicated finance through US contacts.

"These people take fees to put people in touch with alleged funders," said Ms Pasterfield. "Brokers introducing people to mortgages need consumer credit licences and are regulated by the Securities and Investments Board. Yet those who say they will introdnce businesses to financiers are governed by no one."

Welsh Water to buy 20% of Czech utility

By Vincent Boland in Prague

Welsh Water has agreed to buy a 20 per cent stake in the biggest water and waste disposal operator in the Czech republic.

The UK utility is set to pay the Czech privatisation ministry Kcs198.6m (£4.48m) for the stake in Severočeské Vodovody a Kanalizace, marking its first investment in central Europe.

Although no contract has been signed and the agreement must be approved by the Czech government, Mr Graham Hawker, chief executive of Welsh Water, said negotiations were "at the formalities stage." Officials of SCVK wera not available for comment yesterday.

The two companies have been in negotiations for nearly two years.

Mr Hawker said Welsh Water intended to take an active management role in SCVK. It was also seeking to buy further shares from local investors who hold 58 per cent of SCVK, to allow it "to influence management decisions." He ruled out taking a majority stake in the immediate future.

SCVK was privatised in the Czech government's second wave of coupon privatisations this year, and is expected to be listed on the Prague bourse next February when second-wave shares are released to investors.

It provides water and waste disposal services to about 1m customers in northern Bohemia, and mada profits of Kcs50m last year on turnover of Kcs1.2bn. Welsh Water, which has nearly 3m customars in Wales and western England, made pre-tax profits of £144.2m on turnover of £512.1m last year.

Mr Hawker said Welsh Water had identified the Czech republic as a key market in central Europe. The investment in SCVK could lead to further expansion in the region, but he said Welsh Water had "no plans other than to consolidate in the Czech republic" at present.

COMMODITIES AND AGRICULTURE

British partner is first to share in Ukraine oil find

By Matthew Kaminski in Kiev and Robert Corzine in London

The first commercial oil production by a western joint venture in Ukraine is to begin later this month.

The Poltava Petroleum Company, a UK-Ukrainian joint venture, yesterday said it had successfully tested its first well in the Novo-Nikolaevskoye fields in north eastern Ukraine.

"The preliminary results are very encouraging, well in excess of what had been expected," said Mr David Davis, the company's general director in Poltava, 500km east of Kiev.

JKX Oil and Gas, the UK partner, said the well produced 2,175 barrels of oil a day and 2m cubic feet of natural gas.

The company believed the three fields that made up Novo-Nikolaevskoye could hold as much as 60m barrels of oil and 1,100bn cubic feet of gas.

Peak daily production could approach 20,000 barrels of oil and 200m cubic feet of gas, it said.

Full-scale development of the field would cost about $53m, and would mark a small step forward in Ukraine's efforts to wean itself of dependence on Russian oil imports and exploit natural resources largely undeveloped in the Soviet era.

The former Soviet republic now depends almost exclusively on Russian oil and gas supplies – a sensitive issue in often strained Russo-Ukrainian relations.

JKX, which has so far invested $15m in Poltava, has a 49 per cent stake in the project. The rest is split between Ukragasprom, the giant state oil and gas concern, and Ukraine's State Property Committee, which directs and oversees foreign investment in state companies.

Ukraine has the option to buy 100 per cent of the oil and gas produced at world prices. But half of the revenues from domestic sales have to be converted to Ukrainian coupons.

Mr David Robson, JKX managing director, said the "forced conversion to coupons doesn't concern us that much" because the company would have significant coupon costs during the two and a half years or so that would be required to drill the 58 wells needed to fully drain the fields.

Any hard currency exports from the development would not be subject to the forced coupon conversion.

JKX's other Ukrainian venture, the Crimean Petroleum Company, is now assessing prospects in the Black Sea off the Crimean peninsula. It expected to begin exploratory drilling late next year, according to Mr Robson.

Cuba struggles to revive sugar sector

Pascal Fletcher reports on problems dogging the mainstay of the country's economy

Cuba's sugar harvest, mainstay of the island's economy, could soon begin to level out after its recent nosedive, but a return to cruising altitude looks a long way off.

Just five years ago output was running at a comfortable 8m tonnes a year. But then it went into a tailspin. The crop fell to a historic low of 4m tonnes in 1993-94 from 4.2m tonnes in 1992-93 and 7m tonnes the previous year.

This represented lost export earnings over two harvests of $1bn, a heavy blow for a sugar-dominated, recession-hit economy whose total export revenue in 1993 was an estimated $1.7 bn.

Faced with continuing severe input shortages and a reduced level of harvestable cane, the best Cuba can hope for from the 1994-95 season is to slow the decline in its leading export industry. If it can do this, the island may be able to lay some foundations for a future recovery. But it will be a hard slog.

Sugar market analysts, such as London trade house E.D. & F. Man, have already predicted that Cuban output will continue to fall in 1994-95. Even the Cuban authorities, *normally loath to make any* public pre-harvest forecasts, are signalling that they expect a crop as low as or lower than last year.

"This is not a time for spectacular results measured in large volumes of sugar," the official workers' daily Trabajadores said in an October 10 editorial.

"Sugar production suffers from a syndrome of cycles, either good or bad. . . if you had a bad previous harvest, recovery is difficult," said Mr Juan Triana Cordovi, deputy director of Havana University's Centre for Studies on the Cuban Economy.

It was the sudden collapse after 1990 of crucial Soviet supplies of fuel, fertiliser, herbicides and spares that knocked Cuban sugar production off course. Recent harvests have also been buffeted by unseasonal bad weather and slowed by declining efficiency.

The antidote proposed by Mr Nelson Torres, Cuba's minister for sugar, is a short, sharp and above all efficient 1994-95 harvest.

This year's campaign, if it starts this month as usual, will not be allowed to extend beyond April. In another change of strategy, all of *Cuba's more than 150 mills will* be required to join the harvest to maximise production. Last season, more than a dozen below-par mills did not operate, with the result that their machinery was "cannibalised" for other uses and their work forces dispersed.

The over-extended 1993-94 harvest, which lasted well beyond May, cut into growing cane reserves and delayed field cultivation and mill repairs. Mill managers, struggling to meet pre-set production targets and to compensate for industrial breakdowns and inefficiency, harvested cane that could have been left for the coming season.

Granma, the official Communist Party newspaper, said in a September 2 article: "There is going to be once again – it's no secret – a serious shortage of cane". That echoed an August, E.D. & F. Man report warning that the protracted 1993-94 campaign, continuing input shortages and reports of delays in the planting programme meant that "further degradation of [Cuba's] sugar production cannot be eliminated".

As the start of the harvest approaches, sugar workers have been the target of a blitz of official criticism. State media have accused them of ducking out of eight-hour work schedules, using poor quality seed and failing to weed growing cane. "Why is the cane in such poor state. . . so full of weeds?" state-run Radio Rebelde asked back in September.

Especially targetted for criticism were the cane growing co-operatives, the so-called basic units of co-operative production (UBPCs), created in September, 1993 as part of a decentralising reform of Cuba's state-run farming system. "Why have these UBPCs still not been able to contain and reverse the sharp collapse of the nation's greatest resource?" Mr Trabajadores said six weeks ago.

Reasons cited for poor productivity in the cane co-operatives were the lack of incentivas, delays in obtaining promised benefits like new housing and even shortages of work clothes like boots. Government ministers were studying the possibility of introducing greater material incentives for sugar workers – whether in local or hard currency or in access to consumer goods – like those already available for workers in Cuba's tourist industry.

To offset harvest manpower shortages, Cuba's official trade union organisation, the CTC, is preparing to mobilise 61,000 cane cutters across the island, 25,000 more than last year. This manual cutting force will also help to compensate for cutbacks in machine harvesting resulting from shortages of fuel, lubricants and spare parts.

On the commercial front, Cuba has maintained a hermetic silence over the state of its strategic sugar trade contracts with Russia and China. Traders in London and New York reported as early as June that the country might have problems meeting all of its export commitments because of the second consecutive low harvest. The Cubans were expected to have sought to roll over many of their commitments into the next crop period, a tactic widely used even when the island was producing harvests of about 8m tonnes.

The roll-over mechanism is considerably less drastic than the *force majeure* declared by Cuba in June, 1993, when torrential rains devastated an already flagging harvest.

Jamaica sells banana farms

By Canute James in Kingston

The Jamaican government has divested two of the island's largest banana farms to Fyffes of the UK and Prodncera Group, a local company. The companies, which market all of Jamaica's export bananas, paid US$8m for a 95 per cent interest in the two farms, with Fyffes being the minority partner.

The government is expecting improved production of bananas with the divestment. Mr Seymour Mullings, the agriculture minister, said exports of the fruit next year should reach 105,000 tonnes, which is *the island's quota to the European Union*. This year's exports are projected at 85,000 tonnes.

Meanwhile, the marketing of bananas produced in the Windward Islands is being restructured with the creation of a new marketing company.

UK apple growers hope to turn back French tide

By Alison Maitland

A group of English apple growers has decided to take on the powerful French Golden Delicious by producing its own, home-grown variety.

"Le Crunch", which has been heavily promoted in Britain and tends to undercut English varieties on price, has an estimated 20 per cent share of the market.

But about 24 per cent of consumers feel chauvinistic enough about apples to avoid buying French varieties, while 57 per cent say they prefer to buy English apples, according to an opinion poll by Research *Surveys of Great Britain*.

So the English Fruit Company, a Kent-based co-operative of 300 growers, has developed an English Golden Delicious, which is from the same family as the French variety but has a different cell structure. This makes it sweeter, smaller and crisper. It is also slightly greener than the yellow French apple.

"We're trying to develop something which has the edge on flavour," said Mr Michael Green, the company's sales director. "I don't think we'll ever have the French tonnage per hectare, because we don't have the climate to cope with that."

A quarter of a million 40lb cases of the new apples are being promoted by a superstore chain, Asda, for two weeks this month. If they prove a success, the fruit growers plan to market the Golden Delicious on a wider scale next year.

English apple growers complain their traditional varieties, such as the Cox, are being forced off the market by an influx of apples from low-cost producers such as Chile and South Africa and from a glut of apples in the EU.

MARKET REPORT

Metals absorb profit-taking

BASE METALS enjoyed another active day at the London Metal Exchange, with all markets leaping to new highs and mostly absorbing late profit-taking, traders said.

At the London Commodity Exchange white SUGAR futures registered sharp gains, buoyed by talk of renewed Chinese buying and expectations of fresh Russian interest. But COFFEE prices closed sharply lower on trade and commission house selling and liquidation of long positions. The January contract was down $85 at $3,360 a tonne.

Compiled from Reuters

Palladium thrives on phone connection

By Kenneth Gooding, Mining Correspondent

Booming world-wide demand for mobile telephones has helped the price of palladium to double in the past year. The precious metal is needed for the multi-layer ceramic capacitators used in these telephones, as well as in a wide variety of other electronic equipment such as personal computers and the new wide-screen televisions.

Yesterday in London palladium reached $160.35 cents a troy ounce at one stage, its highest level for five years.

The steady rise over the past 12 months was spurred by genuine demand because the palladium market was not liquid enough for speculators to take much interest, said Mr Andy Smith, analyst at Union Bank of Switzerland.

Apart from demand from the electronics industry, which was battling to keep up with soaring sales of mobile telephones, *car makers were using* much more palladium in automotive anti-pollution catalysts, where it was being substituted for more-expensive platinum.

According to Johnson Matthey, the world's largest platinum group metals marketing organisation, last year about 4.13m ounces of palladium was produced. Russia accounted for 2.3m ounces, South Africa 1.4m, while the rest was provided by North America.

Mr Smith said it was widely assumed in the market that the Russians would sell heavily from stocks once palladium reached about $150 an ounce in order to keep the *price down. They feared* other metals would be substituted by the Japanese electronics industry once $150 was reached. He said the recent weakening of the US dollar meant that the yen price of the metal was "not unbearably high".

Nevertheless, Russia remained the "wild card" in the market as it must be assumed that its stocks were high, given that palladium was mainly used in Russia for military purposes and military spending there had dropped dramatically.

Another analyst insisted that there was no substance in rumours that the Russians were withholding palladium to keep prices rising. There were shortages of palladium in the prefered form – the powder used by the electronics and autocatalyst industry – but the market had enough ingot, or solid, palladium, *the only type* supplied by Russia.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1837-8	1859-60
Previous	1832-3	1856-6
High/low		1896/1850
AM Official	1858-9	1878.5-9.5
Kerb close		1882-3
Open int.	258,988	
Total daily turnover	75,443	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1840-50	1875-80
Previous	1830-40	1865-70
High/low		1895/1870
AM Official	1855-60	1890-5
Kerb close		1880-5
Open int.	2,807	
Total daily turnover	673	

■ LEAD ($ per tonne)

Close	667-8	683.5-4
Previous	661.5-2.5	678-9
High/low		684/678
AM Official	663-4	682-2.5
Kerb close		682-3
Open int.	43,876	
Total daily turnover	11,938	

■ NICKEL ($ per tonne)

Close	7430-40	7550-60
Previous	7415-25	7535-40
High/low		7650/7550
AM Official	7465-70	7590-5
Kerb close		7565-70
Open int.	67,297	
Total daily turnover	11,297	

■ TIN ($ per tonne)

Close	6135-45	6230-5
Previous	5980-90	6075-80
High/low		6250/6120
AM Official	6095-100	6190-5
Kerb close		6245-50
Open int.	19,298	
Total daily turnover	9,570	

■ ZINC, special high grade ($ per tonne)

Close	1148.5-8.5	1170-1
Previous	1135-6	1167-8
High/low	1145.5	1173/1160
AM Official	1145-5.5	1168-9
Kerb close		1168-9
Open int.	105,875	
Total daily turnover	19,741	

■ COPPER, grade A ($ per tonne)

Close	2712-4	2691-3
Previous	2712-3	2696.5-7
High/low		2725/2670
AM Official	2711-2	2695-6
Kerb close		2696-7
Open int.	221,202	
Total daily turnover	71,892	

■ LME AM Official £/$ rate: 1.6367
LME Closing £/$ rate: 1.6335

Spot:1.6345 3 mths:1.6328 6 mths:1.6296 9 mths:1.6264

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Nov	127.50	+0.70	127.00	124.70	1,391	121
Dec	128.30	+0.70	126.80	123.40	40,490	2,096
Jan	125.50	+0.70	125.50	123.60	912	91
Feb	124.70	+0.70	122.80	122.60	573	20
Mar	123.70	+0.50	124.25	121.10	9,275	2,287
Apr	122.45	+0.50	-	-	702	10
Total					61,388	6,148

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	383.50-383.90	
Opening	384.40-384.80	
Morning fix	383.85	234.298
Afternoon fix	383.85	233.984
Day's High	384.70-385.10	
Day's Low	382.90-383.30	
Previous close	383.50-384.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.50 6 months 5.12
2 months ....4.82 12 months 5.50
3 months 4.87

Silver Fix	p/troy oz.	US cts equiv.
Spot	322.20	527.75
3 months	327.10	535.20
6 months	332.00	542.50
1 year	344.80	561.10

Gold Coins	$ price	£ equiv.
Krugerrand	386-389	236-239
Maple Leaf	394.45-396.95	-
New Sovereign	90-93	55-58

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Nov	384.2	-0.1	-	-	14	14
Dec	385.5	-0.2	385.7	384.2	85,519	23,760
Jan	387.2	-0.2	-	-	-	-
Feb	389.1	-0.2	389.5	387.6	21,246	1,090
Apr	392.8	-0.2	392.6	391.5	9,870	58
Jun	396.5	-0.1	396.7	395.9	9,826	609
Total					163,943	26,666

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	421.5	+1.0	422.9	419.5	18,804	3,938
Apr	426.0	+1.1	426.0	424.5	4,150	301
Jul	430.7	+0.9	429.0	429.0	1,382	101
Oct	435.6	+1.3	-	-	444	2
Jan	438.8	+1.3	-	-	10	12
Total					24,790	4,354

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	162.65	+1.70	164.00	160.50	4,802	1,033
Mar	164.25	+1.80	164.50	162.50	2,503	300
Jun	165.25	+1.80	166.00	166.00	465	-
Sep	166.00	+1.80	-	-	31	-
Total					7,801	1,333

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Nov	531.6	+4.1	-	-	-	-
Dec	533.5	+4.0	534.0	526.0	73,225	25,658
Jan	536.1	+4.0	535.5	531.5	86	17
Mar	542.0	+4.0	542.0	534.5	20,144	1,610
May	547.9	+4.0	550.0	542.5	4,893	98
Jul	554.1	+4.0	553.0	546.0	4,124	339
Total					113,989	28,178

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	16.65	-0.13	18.76	18.49	90,036	56,141
Jan	18.33	-0.11	18.51	18.29	71,833	29,710
Feb	18.17	-0.11	18.33	18.14	36,130	9,003
Mar	18.07	-0.10	18.19	18.07	23,567	3,633
Apr	18.02	-0.02	18.10	18.04	10,928	3,403
May	17.98	-0.04	17.99	17.97	11,459	1,003
Total					386,874	108,114

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	17.27	-0.06	17.45	17.25	75,899	20,280
Jan	16.88	-0.13	17.05	16.86	55,519	14,859
Feb	16.70	-0.17	16.86	16.70	17,259	2,986
Mar	16.56	-0.16	16.71	16.56	12,514	2,828
Apr	16.54	-0.10	16.55	16.54	4,923	190
May	16.46	-0.12	16.46	16.46	3,008	185
Total					180,107	47,458

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	50.60	-0.12	51.20	50.40	47,745	16,016
Jan	51.10	-0.09	51.75	50.90	33,336	6,281
Feb	51.50	-0.19	51.70	51.40	21,834	2,456
Mar	51.20	-0.09	51.35	51.20	11,063	1,393
Apr	50.45	-0.09	50.55	50.45	7,835	610
May	49.85	-0.04	49.85	49.85	5,561	264
Total					163,811	29,290

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	152.75	-0.50	154.00	152.25	24,311	5,055
Dec	155.00	-	158.50	154.50	28,520	5,478
Jan	156.00	-0.25	157.50	156.00	20,264	848
Feb	157.00	-0.25	158.50	168.75	8,638	534
Mar	157.00	-0.50	157.75	157.00	714	2,241
Apr	156.00	-0.50	155.75	155.00	8,747	132
Total					102,584	14,250

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	1.890	-0.048	1.944	1.876	28,777	13,629
Jan	2.043	-0.025	2.075	2.035	18,225	2,732
Feb	1.985	-0.020	1.995	1.975	12,256	1,721
Mar	1.930	-0.015	1.940	1.925	12,191	1,559
Apr	1.875	-0.010	1.875	1.876	6,881	631
May	1.875	-0.011	1.880	1.874	6,620	178
Total					131,080	23,687

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	59.25	-0.55	60.80	59.10	894	342
Jan	56.85	-0.43	58.05	56.70	30,481	13,028
Feb	55.80	+0.15	56.30	56.05	16,447	4,964
Mar	56.10	+0.05	56.25	56.15	6,715	1,261
Apr	59.50	-	59.50	59.40	3,980	492
May	58.35	-	-	-	4,704	288
Total					67,932	20,580

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	105.25	-	105.30	105.25	788	60
Jan	106.95	-0.15	107.10	106.85	1,867	57
Mar	109.00	-0.10	109.10	109.10	1,579	39
May	110.95	-0.15	111.10	111.00	1,552	81
Jul	112.75	-	-	-	120	-
Sep	98.50	-0.10	-	-	60	-
Total					6,474	263

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	392/2	+5/6	393/0	386/4	38,041	9,979
Mar	406/0	+5/4	403/4	397/4	24,889	5,914
May	381/0	+5/4	381/4	375/4	4,186	618
Jul	349/0	+2/2	349/4	347/0	9,984	684
Sep	352/4	+1/4	352/0	351/4	277	18
Dec	364/0	+3/2	-	-	150	6
Total					75,293	16,717

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	215/6	-	217/0	215/4	114,716	17,229
Mar	226/2	-	226/4	225/4	82,881	4,016
May	234/6	-	236/0	234/4	25,596	1,340
Jul	240/2	-	241/2	240/0	33,089	2,085
Sep	245/0	-	245/6	245/0	3,626	323
Dec	249/4	-0/2	250/2	249/2	14,251	707
Total					254,738	25,873

■ BARLEY LCE (£ per tonne)

Nov	101.00	-0.25	101.25	101.00	116	48
Jan	103.50	-0.25	103.75	103.50	416	55
Mar	105.75	-0.30	-	-	130	-
May	107.00	-0.25	-	-	48	-
Sep	93.00	-0.25	-	-	5	-
Total					716	103

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	545/6	+3/4	548/4	541/4	15,123	17,519
Jan	557/4	+3/2	560/4	553/6	37,310	28,158
Mar	567/6	+3/0	570/0	564/0	25,221	2,984
May	576/6	+3/4	579/0	573/0	12,753	1,878
Jul	582/4	+3/0	584/4	579/0	20,850	1,810
Aug	586/2	+2/6	587/4	582/0	1,861	200
Total					141,297	58,671

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	26.34	+0.60	26.44	25.73	33,593	11,526
Jan	25.43	+0.58	25.50	24.85	17,772	2,964
Mar	24.86	+0.50	24.89	24.37	13,494	3,409
May	24.52	+0.38	24.57	24.25	12,017	838
Jul	24.25	+0.33	24.35	24.10	7,074	1,297
Aug	24.10	+0.27	24.25	24.02	3,291	218
Total					81,286	20,530

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	159.8	-0.7	160.7	158.4	40,430	8,602
Jan	161.2	-0.8	162.1	161.0	18,132	1,258
Mar	165.3	-0.2	165.7	164.8	15,576	2,272
May	169.4	-0.4	169.3	168.8	8,255	676
Jul	173.5	-0.4	173.9	172.6	8,930	1,300
Aug	175.1	-0.6	175.2	174.3	1,255	351
Total					87,940	12,327

■ POTATOES LCE (£/tonne)

Nov	190.0	-	-	-	-	-
Mar	190.0	-	-	-	-	-
Apr	222.3	-3.7	224.0	220.5	1,405	36
May	242.5	-	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					1,468	36

■ FREIGHT (BIFFEX) LCE ($10/index point)

Nov	1800	+18	1820	1820	275	3
Dec	1724	-8	1725	1720	380	8
Jan	1693	-8	1693	1695	1,054	19
Apr	1643	+2	-	-	393	-
Jul	1440	-23	-	-	137	-
Oct	1480	-30	-	-	17	-
Total					2,681	49

	Close	Prev
BFI	1898	1883

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	942	-1	943	937	20,500	866
Mar	970	-2	971	965	42,101	2,325
May	979	-4	980	973	14,631	309
Jul	990	-6	993	989	8,401	46
Sep	1004	-5	1009	1004	12,461	61
Dec	1021	-4	1022	1020	8,851	201
Total					111,647	4,382

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1326	+17	1336	1306	25,127	5,962
Mar	1357	+14	1366	1343	27,984	4,250
May	1385	+4	1390	1381	7,971	519
Jul	1410	+3	1415	1406	3,029	17
Sep	1429	-5	1430	1426	1,387	7
Dec	1466	+5	-	-	4,985	15
Total					75,257	4,737

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
November 1		
Daily	961.87	998.38

■ COFFEE LCE ($/tonne)

Nov	3323	-76	3390	3325	1,144	888
Jan	3363	-82	3435	3360	11,895	3,812
Mar	3330	-79	3405	3330	8,374	1,188
May	3321	-77	3380	3320	3,187	317
Jul	3303	-76	3352	3310	1,340	32
Sep	3295	-82	3310	3310	1,461	4
Total					27,303	6,421

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	178.30	-8.05	185.10	173.50	11,523	3,200
Mar	183.10	-0.25	190.10	181.00	12,729	1,246
May	187.00	-6.00	192.10	187.00	5,018	357
Jul	188.50	-6.00	193.60	188.00	1,891	17
Sep	190.20	-6.00	195.10	190.25	613	29
Dec	191.60	-6.00	196.00	191.60	586	5
Total					32,632	4,861

■ COFFEE (ICO) (US cents/pound)

November 1	Price	Prev. day
Comp. daily	176.95	177.77
15 day average	183.23	183.32

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jan	13.00	-	-	-	-	-
Mar	13.05	-	-	-	21	-
May	13.45	+0.25	-	-	400	-
Jul	13.13	-	-	-	430	-
Total					851	-

■ WHITE SUGAR LCE ($/tonne)

Dec	359.40	+8.30	365.50	359.00	2,972	539
Mar	356.60	+8.00	361.00	351.00	6,577	1,233
May	352.40	+9.10	358.80	350.00	2,789	435
Aug	352.10	+8.40	354.00	346.70	2,790	591
Oct	337.10	+7.20	337.00	331.20	576	63
Dec	325.90	-7.70	321.30	321.30	14	3
Total					17,668	2,897

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	13.21	+0.31	13.37	12.98	96,055	11,316
May	13.21	+0.27	13.35	12.98	25,885	4,657
Jul	13.11	+0.33	13.29	12.87	15,918	2,100
Oct	12.53	+0.10	12.65	12.40	14,364	2,285
Mar	12.13	+0.18	12.30	12.07	2,228	882
May	12.13	+0.16	-	-	61	46
Total					154,880	20,865

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	72.27	-0.17	72.77	71.56	24,456	7,798
Mar	73.55	-0.08	74.05	73.30	16,023	2,388
May	74.87	-0.08	75.00	74.41	6,939	433
Jul	75.35	-0.15	75.55	75.00	4,268	191
Oct	73.43	-0.45	70.50	70.50	575	63
Dec	69.40	-0.48	69.75	69.40	3,855	169
Total					55,118	11,074

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	107.45	+1.40	107.00	105.75	835	391
Jan	111.60	+1.35	111.70	109.90	14,303	923
Mar	115.30	+1.40	115.50	113.20	5,245	164
May	118.65	+1.65	117.75	117.00	1,577	85
Jul	122.15	+1.65	120.00	120.00	995	36
Sep	124.45	+1.40	124.50	124.65	606	11
Total					23,180	1,625

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	70.550	+0.950	70.650	69.850	30,898	5,738
Feb	69.400	+0.950	69.475	68.475	23,363	2,574
Apr	69.800	+0.375	69.850	69.475	13,164	1,345
Jun	65.825	+0.350	65.800	65.550	4,817	546
Aug	64.600	+0.325	65.000	64.600	1,502	60
Oct	65.550	+0.350	65.500	65.450	289	16
Total					70,032	11,289

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	34.275	+0.175	34.500	33.775	17,556	4,142
Feb	36.800	+0.250	37.400	36.300	8,363	2,615
Apr	37.250	+0.350	37.700	36.600	4,722	998
Jun	42.600	+0.200	42.700	42.000	2,205	231
Jul	41.250	-	41.900	41.600	405	60
Aug	38.600	-	38.900	38.600	310	28
Total					34,228	8,252

■ PORK BELLIES CME (40,000lbs; cents/lb)

Feb	41.975	+0.500	43.200	41.250	7,980	3,220
Mar	42.375	+0.600	43.125	41.350	1,235	313
May	43.100	+0.350	44.250	42.750	314	27
Jul	43.900	+0.250	45.100	43.400	319	28
Aug	43.500	+0.500	43.500	42.400	74	1
Total					8,992	3,589

LONDON TRADED OPTIONS

Strike price $ tonne	— Calls —		— Puts —	
■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1800	102	133	42	67
1825	87	118	52	78
1850	74	108	64	90
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
2600	147	141	45	102
2650	110	117	64	127
2700	80	98	87	154
■ COFFEE LCE	Jan	Mar	Jan	Mar
3400	216	302	253	364
3450	198	285	285	397
3500	180	269	317	431
■ COCOA LCE	Dec	Mar	Dec	Mar
950	13	65	21	45
975	5	53	38	58
1000	2	43	60	73
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
1650	[illegible]	[illegible]	[illegible]	91
1700	[illegible]	[illegible]	[illegible]	68
1750	[illegible]	[illegible]	[illegible]	49

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Dec) +or-

		+or-
Dubai	$15.95-6.10z	+0.160
Brent Blend (dated)	$17.01-7.04	+0.175
Brent Blend (Dec)	$17.29-7.31	+0.115
W.T.I. (1pm est)	$18.56-8.59z	+0.115

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$182-186	
Gas Oil	$156-157	
Heavy Fuel Oil	$100-102	+3.0
Naphtha	$170-172	
Jet fuel	$180-181	
Diesel	$161-162	+1.0

Petroleum Argus. Tel. London (071) 359 8792

■ OTHER

Gold (per troy oz)♣	$383.70	-0.05
Silver (per troy oz)♣	529.5c	+5.0
Platinum (per troy oz.)	$417.25	+2.65
Palladium (per troy oz.)	$160.00	+1.15
Copper (US prod.)	131.0c	+2.0
Lead (US prod.)	40.25c	
Tin (Kuala Lumpur)	14.81r	
Tin (New York)	288.5c	+8.0
Cattle (live weight)†	115.20p	-0.11*
Sheep (live weight)†♣	88.60p	+5.52*
Pigs (live weight)	74.87p	+0.66*
Lon. day sugar (raw)	$322.60	+3.30
Lon. day sugar (wte)	$363.50	+2.20
Tate & Lyle export	£309.00	+2.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	Unq.	
Wheat (US Dark North)	Unq.	
Rubber (Dec)♥	88.25p	
Rubber (Jan)♥	85.75p	
Rubber (KL RSS No1 Jul)	340.5m	
Coconut Oil (Phil)§	$690.0v	+10.0
Palm Oil (Malay)§	$650.0t	+2.5
Copra (Phil)§	$412.0v	
Soyabeans (US)	£152.0v	
Cotton Outlook'A' index	75.60c	+0.05
Wooltops (64s Super)	451p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Oct/Dec v Nov/Dec u Oct/Nov. z Dec. t Nov. ¶ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♦ Sheep (Live weight prices). * Change on week. † Prices are for previous day.

Cotton

Spot and shipment sales in Liverpool amounted to 42 tonnes for the week ended October 28, against 463 tonnes in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles, notably in the central Asian and Israeli range.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

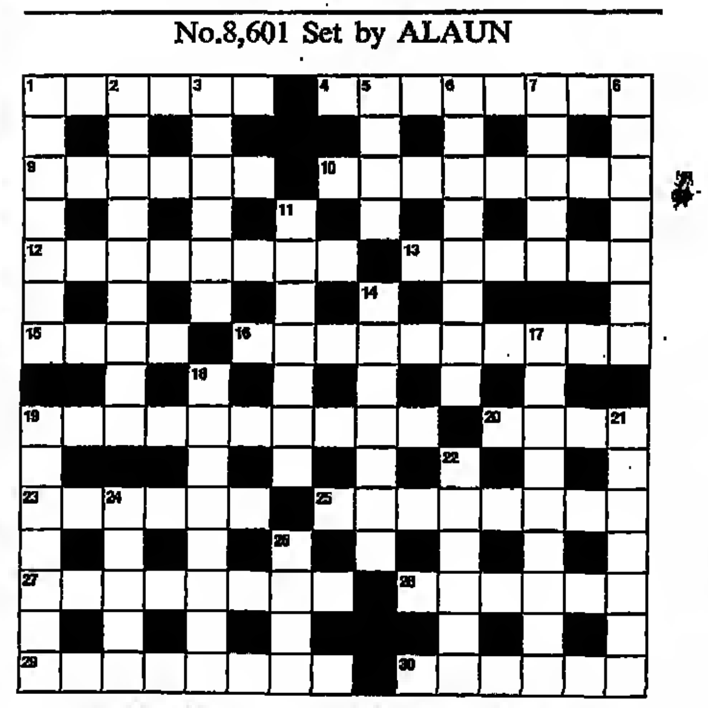
Nov 2	Nov 1	month ago	year ago
2105.0	2099.3	2089.9	1612.2

■ CRB Futures (Base: 1967=100)

Nov 1	Oct 31	month ago	year ago
233.53	233.30	230.28	218.46

CROSSWORD

No.8,601 Set by ALAUN



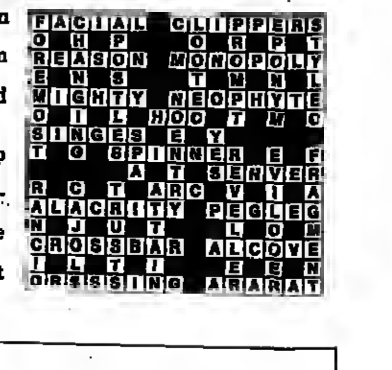
ACROSS

1 He can't afford to buy food in the pub (6)
4 Notice a trap set inside and scatter (8)
9 Say she doesn't have the heart to be opposed to (6)
10 They don't believe in buying stock (8)
12 Held up as an anti-revolutionary, indeed (8)
13 After the upheaval, trouble's sure to follow (6)
15 Decline to exclude from one's circle of friends (4)
16 Like the kindly granddad having a drink? (3,3,4)
19 An air of ferocity? (6,4)
20 I write in the last name (4)
23 Behind time, setting the snare outside (6)
25 Up to the standard of – or very nearly (2,4,2)
27 The very one to gain access to, for the robbery (8)
28 Having a sweetheart back in Sicily (6)
29 The wind does damage, then abates (4,4)
30 Secured and wolfed the food (6)

DOWN

1 Lived in, though it's shut up (7)
2 Excellent paint for the wardrobe (9)
3 The farmyard animal, be indisposed to attack (6)
5 From Australia, they won't fly me back to America (4)
6 Shakes and the sands run out, pouring into it (8)
7 Declares to be an unfinished work of the poet's (5)
8 Part of London in which a man has to carry a gun (4,3)
11 Yells and a cry of pain muffled by the peals (7)
14 In a brilliant finish, disappear right through it (7)
17 Convinced it's where you'll find the stay-at-home (2,2,5)
18 Chased inside, conclude it's serious (8)
19 What the *so-and-so wind did?* (7)
21 Drop something you were holding in your hand (7)
22 The master goes in twice to get something to eat (6)
24 Yours has the fine point (5)
26 Describe the tie (4)

Solution 8,600



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Equities rally following currency intervention

By Terry Byland, UK Stock Market Editor

Currency market developments set the pace for UK equities yesterday, pushing aside the market's second thoughts on the Bank of England's inflation report as it weighed the outcome of the regular monthly meeting between the chancellor of the exchequer and the Governor of the Bank of England. Share prices slipped away steadily in the afternoon, but rallied sharply when the US Federal Reserve stepped in to rescue the dollar.

A fall of 26 points on the FT-SE 100-share Index was cut to 15 at the close for a final reading of 3,081.3. The FT-SE Mid 250 Index finished 2.3 off at 3,522. The equity market was led by British government bonds, which reacted aharply to the dollar's performance. Wall Street also recovered an early fall to edge into plus territory as London closed for the day.

The session opened with the Footsie climbing just above 3,000 as the market at first extended its favourable response to the Bank of England inflation report announced late on Tuesday. But the mood had already been damped down by wider publication of the Bank's hint that UK base rates may still have to rise over the coming months to keep inflation on target. Equities were soon unsettled by falls in UK bonds.

Confidence continued to crumble further during the morning, but it was not until London began to assess prospects for the opening on Wall Street and its reaction to the dollar'6 weakness that the blue chip international stocks turned distinctly downwards.

London analysts doubted whether currency intervention alone would solve the dollar's problems, and noted that there had been no concerted action involving European central banks. Some suggested that markets would not settle down unless the US Federal Reserve took the next step in dollar support by lifting interest rates. However, such a step would apply pressure for a similar move in UK base rates.

Oil shares, in spite of this week's good results from British Petroleum and from the major US companies, slipped lower. The chemicals sector was upset both by the dollar and by trends in some European chemical stocks. Pharmaceuticals, also closely influenced by the US dollar and by Wall Street, closed with minor losses. Good results from BAT Industries failed to protect the stock against weakness in the US currency.

On the domestic front, views on the implications of the Bank's inflation report shifted a little after analysts had taken a closer look. Strategists returned to the perception that base rates would rise either at the end of this year or the beginning of next, whatever happened in the meantime.

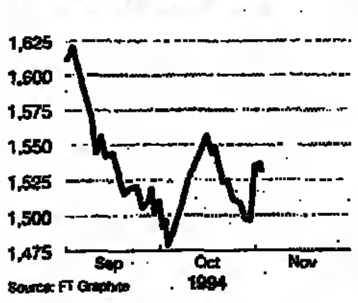
Suggestions that the Bank might want to act sooner were parried with the comment that it would be difficult to explain an early rate rise in the wake of the Bank's favourable comments on inflation.

Retail stocks, always the most closely linked to interest rate prospects, edged higher yesterday but this in part reflected good trading news from J. Sainsbury, the food supermarket group.

Seaq volume rallied from a slow start but the day's total of 493.6m shares was below Tuesday's figure. Traders believed that much of the day's business reflected hurried position switching by marketmakers as the mood turned in what has become a highly volatile UK stock market.

Customer, or retail, business has remaind fairly satisfactory, and returned a worth of just above £1bn on Tuesday. But some analysts point out that a significant fall in the daily total of bargains transacted implies that genuine investment business in the UK stock market is being concentrated in fewer and fewer institutional deals. These deals benefit securities houses with good lists of institutional clients but leave others on the sidelines.

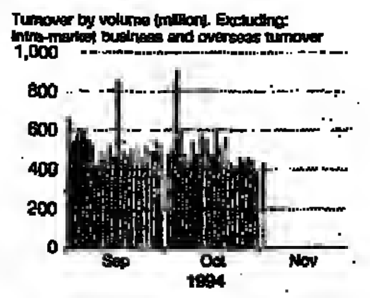
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3081.3	-15.0	FT Ordinary index	2355.4	-4.6
FT-SE Mid 250	3522.0	-2.3	FT-SE-A Non Fins p/e	18.80	(18.88)
FT-SE-A 350	1545.4	-6.0	FT-SE100 Fut Dec	3097.0	-22.0
FT-SE-A All-Share	1530.92	-5.59	10 yr Gilt yield	8.85	(8.75)
FT-SE-A All-Share yield	3.95	(3.93)	Long gilt/equity yld ratio:	2.24	(2.24)

Best performing sectors		Worst performing sectors	
1 Retailers, Food	+1.8	1 Life Assurance	-1.4
2 Property	+0.9	2 Telecommunications	-1.0
3 Textiles & Apparel	+0.8	3 Leisure & Hotels	-1.0
4 Gas Distribution	+0.8	4 Spirits, Wines & Cider	-0.9
5 Extractive Inds	+0.5	5 Electricity	-0.9

Burton line on offer

Shock news that New Look, tha fashion retailer, had decided to postpone its flotation, "in the light of current market conditions for new issues", unsettled the rest of the retailing sector and in particular Burton Group.

A poor performance for Burton shares throughout the session was compounded by the pulling of the New Look issue.

Dealers said several blocks of Burton stock had come on offer during the session, but what really spooked the market was a story that a block of 10m shares, equivalent to a short 1 per cent of the company's issued capital, was being offered around the market.

Burton shares dropped to a session's low of 61¼p before stabilising and closing a net 2½ down at 62¼p. Turnover was 3.1m shares. Burton is scheduled to announce preliminary figures a week from today, with analysts expecting pre-tax profits of around £40m to 42m, compared with 1993's £38m.

Kingfisber was another weak spot in the sector, sliding 7 to 465p after two blocks of 1m apiece were sold into the market at 460p and 461p. Talk of internal strife at Kingfisber was one of the reasons put forward as behind the weakness in the stock, as was talk of a Kleinwort Benson sell note.

Vickers hint

Vickers continued to move against the market, adding a penny at 179p for a three-day advance of more than 8 per cent. The company is due to make a City presentation to analysts and the suggestion is that it could use the opportunity either to clear the air over persistent rumours of a link-up outside the UK or to say something about US demand for Rolls-Royce cars.

Vickers is known to be searching for a joint venture big brother in order to provide a new 3.5 litre engine for its new, smaller Bentley model. According to the market, it may have managed to sew up a deal with Daimler-Benz, Germany's biggest industrial company.

There is also something of s buzz in the air over Nortb American sales of Roll-Royce cars. The group needs to sell 1,300 of the marque to break-even. Some analysts have begun to make bullisb noises about the company's operational gearing in this division.

Food retailers sprang to life following top of the range interim profits from J. Sainsbury which – read in conjunction with Tesco's recent results – suggested thst the stock market's price-war fears could be down-scaled, at least as far as the sector leaders were concerned.

Sainsbury moved ahead 12 to 411p and Tesco put on a penny at 235¼p. In active trading, Argyll gained 6¼ at 269¼p and Asda firmed a penny to 61½p. Turnover in Argyll was 8.8m and no less than 16m Asda shares changed hands as concern over possible loss of market share triggered a significant two-way pull.

There was some slight disappointment with tbe interim dividend increase, but Sainsbury's comments about the resilience of sales in the current six months led an all-round upgrading of forecasts. BZW is now going for profits of £825m, against earlier expectations of £800m.

Most securities houses were expecting current balf sales to be on the flat side so growth of 1.5 per cent was seen as a clear bonus.

Racal depressed

Racal Electronics was one of the Mid Cap 250's outstanding casualties, the shares meeting persistent pressure in the wake of stories of a profits downgrade by one of the market's leading agency brokers.

James Capel was said to have lowered its current year profits estimate by £14m to £238m. Racal shares, which reached an all-time high of 261p on September 1, have fallen sharply in the past few sessions, and closed s net 11 lower yesterday at 240p. Turnover of 3.1m was one of the highest this year.

There were a number of strong performers in the computer services sector, where Computer People, boosted by a NatWest Securities buy recommendation, moved forward 17 to 225p.

M.R. Data Management advanced 13 to 127p after news that it had won a contract with the Metropolitan Police.

Macro 4 edged up 3 to 438p after S.G. Warburg Securities, the group's broker, bought in a further 150,000 shares at 440p apiece via a series of agency crosses.

Business support services group BET saw 12m shares traded and improved 3 to 114½p following a strong set of interim results which included a 20 per cent dividend increase. In spite of the clear two-way pull in the shares it looked as if most analysts were edging up their profits estimates for ths full year.

ICI was the worst performer in the FT-SE 100 list, the shares retreating 25½, or 3.2 per cent, to a session's low of 774p after keen selling of the stock overnight on Wall Street. Dealers said the shares had run out of steam after last week's interim figures. Turnover was a relatively high 2.7m shares.

Northern Ireland Electricity was the pick of the electricity sector, the shares moving up 13 to 377p as the market reacted to the stock's recent under-performance against the English recs and also to hopes of electricity sales to the Republic in the wake of the recent peace moves in the province.

Northumbrian Water outpaced the rest of a generally firm waters sector after broker buy recommendations. Northumbrian shares forged ahead 20 to 726p; the company is scheduled to announce interim figures a week from today.

Royal Bank of Scotland shares touched their highest level since the end of February, with dealers citing talk of a chart break-out driving the stock forward to a close of 457p, up 8 on the session. Switching from National Westminster Bank and into Barclays cushioned the decline in the latter and left the former 6 weaker at 503p. Hoare Govett was said to have been a keen supporter of Lloyds Bank, which held at 572p.

Cater Allen, the discount house, advanced 7½ to 485p, with the market said to be increasingly optimistic about the interim results expected shortly.

Bellway's preliminary figures, showing profits up 67 per cent and a 16 per cent increase in the dividend total, were given a warm reception by the market and saw the shares race up 14 to 208p.

English China Clays firmed a penny to 360p in the wake of a UBS buy note citing the group's success in diversification into speciality chemicals, the strong balance sheet, secure yield and a falling price earnings ratio.

MARKET REPORTERS: Steve Thompson, Jeffrey Brown.

■ Other statistics, Page 22

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (10).
CHEMICALS (1) European Colour, DISTRIBUTORS (3) Adam & Harvey, Faber Prest, REA, ENGINEERING (4) Boynes (C), FR, Kelsey, Spirax-Sarco, OTHER FINANCIAL (1) Stratagem, SUPPORT SERVS (1) Computer People.

NEW LOWS (111).
BANKS (3) Espirito Santo, Mitsubishi, Sumitomo, BREWERIES (1) Fuller STA, BUILDING & CNSTRN (6) AMEC, Do 6.5p Prf., Birse, Crest Nichol 5½pc Prf., Galliford, BLDG MATLS & MCHTS (1) Lilleshall 9pc Prf., CHEMICALS (3) Cementone, Do Wrts., Engelhard, DISTRIBUTORS (3) Bridgend, Eurodollar, Wholesale Fitngs, DIVERSIFIED INDLS (4) BTR Wrts. 1995/96, BTR Nylex, Suter, Do Wrts., ELECTRNC & ELECT EQUP (2) Gestetner, Johnson, ENGINEERING (7) FKI, GEI Intl., Hampson 6.5p Prf. 91/03, Hunting 8¾pc Prf., McKechnie, Molins, Morgan Crucible 7¼pc Prf., EXTRACTIVE INDS (2) Resolute, St. Barbara, HEALTH CARE (1) Haemocell, HOUSEHOLD GOODS (1) Wyefield, INSURANCE (1) Fenchurch, INVESTMENT TRUSTS (24) INVESTMENT COMPANIES (6) LEISURE & HOTELS (7) Airtours 6¾p Prf., Brent Walker, City Centre Restaurants, Fitz., Prism, Thorn EMI, Wembley, MEDIA (2) Hodder Headline, Sleepy Kids, OTHER FINANCIAL (1) Towry Law, OTHER SERVS & BUSNS (2) Essette, Headway, PHARMACEUTICALS (1) Huntingdon Intl., PRTNG, PAPER & PACKG (3) Ferry Pickering, Inveresk, Lawson Mardon, PROPERTY (11) Bradford, Brightstone, Cleveland Trust, Daejan, Helical Bar 5½pc Prf. 2012, Peel, Raglan, Do Wrts., Saville, Shaftesbury, Smith (J), RETAILERS, FOOD (1) Shoprite, RETAILERS, GENERAL (2) Kingfisher, Kleeneze, SUPPORT SERVS (2) Gresham Telecomputing, Hogg Robinson, TEXTILES & APPAREL (3) FII, Hartstone, Simms, TRANSPORT (3) Norish, Sea Containers, Vard AS, AMERICANS (6) Anheuser-Busch, Bankers NY, California Energy, Honeywell, Maxy, Unilab.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures slipped lower for the second day running, moving through an arc of nearly 50 points in improved trading volume, writes Jeffrey Brown.

The FT-SE 100 December contract stood at 3,097 at the official 4.10pm close for a decline of 22 points. The premium to the cash market was 14 points and fair value was around 11 points.

In spite of the day's extensive trading swing – the December contract moved between a high of 3,118 and a low of 3,071 – activity was again below average with 12,261 contracts, against 9,600 on Tuesday.

Traders said the quality of business remained weak, with the market nervous and unsure of direction. Local, or independent, traders set the tone for much of the session.

There were occasional pockets of arbitrage dealing but the pickings were clearly very slim. Institutional business was nowhere to be seen.

Volume in the traded options market improved to 28,484 lots, from 22,515 on Tuesday. FT-SE and Euro FT-SE activity accounted for just over 17,000 contracts.

There were a number of features among individual stock options. British Steel saw 2,007 lots traded and Guinness 2,000 contracts. Barclays – reflecting big switching in the banks sector – British Airways and ICI were also active.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3105.0	3097.0	-22.0	3118.0	3071.0	13530	53711
Mar	3131.0	3117.0	-21.5	3131.0	3108.0	64	3868
Jun	-	3136.0	-21.5	-	-	0	80

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

Dec	3530.0	3532.0	-3.0	3532.0	3527.0	77	4260

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

Dec	-	3535.0	-	-	-	-	0

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3082) £10 per full index point

	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P
Nov	282	5	139	9	112	16½	79½	30½	44½	51½	24	82	11	121	4½	168
Dec	219½	22½	178	31½	143	46	107½	61½	78	84	57	112½	37½	144½	25	182½
Jan	243½	37½	207½	51½	171	65½	140	84½	109	105½	83½	131	62	160	45	195
Feb	261½	45	225½	59	188½	72½	159	93½	138	114	104	140	88	170	69½	202½
Jun†	354	75½	-	-	297½	109	-	-	174½	147	-	-	133	202½	-	-

Calls 6,824 Puts 8,777

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2825	2875	2925	2975	3025	3075	3125	3175	3225	3275
Nov	176 7	131½ 13	92 23	58 39	30½ 63½	15½ 97½	7 137	2½ 183	[illegible]	[illegible]
Dec	193½ 28	160 39	124½ 53	94 72	66 95½	46 123½	28 155	17½ 194	[illegible]	[illegible]
Jan	219½ 40	[illegible]	150½ 70	[illegible]	98½ 114½	[illegible]	58 172½	[illegible]	[illegible]	[illegible]
Mar	247½ 50	[illegible]	181 91	[illegible]	132½ 133	[illegible]	92 167½	[illegible]	[illegible]	[illegible]
Jun†	298 82	[illegible]	224 114½	[illegible]	167½ 154	[illegible]	120½ 203	[illegible]	[illegible]	[illegible]

Calls 893 Puts 685 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3400	3450	3500	3550	3600	3650	3700	3750
Dec	116½ 52½	90 65½	67½ 112½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

FT-SE Actuaries Share Indices — The UK Series

	Nov 2	Day's chge%	Nov 1	Oct 31	Oct 28	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3081.3	-0.6	3085.5	3097.4	3083.6	3162.3	4.15	7.05	16.75	110.66	1169.12
FT-SE Mid 250	3522.0	-0.1	3524.3	3516.9	3501.5	3517.3	3.50	5.90	20.82	111.82	1316.15
FT-SE Mid 250 ex Inv Trusts	3522.5	-	3523.8	3514.1	3499.5	3517.1	3.71	6.27	19.39	116.34	1313.69
FT-SE-A 350	1545.4	-0.4	1551.4	1551.1	1544.3	1578.4	4.00	6.77	17.33	54.05	1199.34
FT-SE SmallCap	1770.89	-	1770.78	1769.91	1777.83	[illegible]	3.34	4.99	23.31	48.78	1384.56
FT-SE SmallCap ex Inv Trusts	1749.24	-	1749.39	1748.91	1748.04	1787.22	3.54	5.54	23.08	51.78	1385.84
FT-SE-A ALL-SHARE	1530.92	-0.4	1536.51	1536.31	1529.82	1561.15	3.95	6.64	17.82	52.83	1206.47

■ FT-SE Actuaries All-Share

	Nov 2	Day's chge%	Nov 1	Oct 31	Oct 28	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2723.00	-0.6	2740.33	2774.58	2752.71	2450.50	3.40	5.03	25.15	62.53	1096.39
12 Extractive Industries(4)	[illegible]										
15 Oil, Integrated(3)	[illegible]										
16 Oil Exploration & Prod(11)	[illegible]										
20 GEN MANUFACTURERS(267)	[illegible]										
21 Building & Construction(33)	[illegible]										
22 Building Matls & Merchs(32)	[illegible]										
23 Chemicals(23)	[illegible]										
24 Diversified Industrials(16)	[illegible]										
25 Electronic & Elect Equip(34)	[illegible]										
26 Engineering(71)	[illegible]										
27 Engineering, Vehicles(12)	[illegible]										
28 Printing, Paper & Packg(26)	[illegible]										
29 Textiles & Apparel(20)	[illegible]										
30 CONSUMER GOODS(97)	[illegible]										
31 Breweries(17)	[illegible]										
32 Spirits, Wines & Ciders(10)	[illegible]										
33 Food Manufacturers(23)	[illegible]										
34 Household Goods(13)	[illegible]										
36 Health Care(21)	[illegible]										
37 Pharmaceuticals(12)	[illegible]										
38 Tobacco(1)	[illegible]										
40 SERVICES(219)	[illegible]										
41 Distributors(31)	[illegible]										
42 Leisure & Hotels(25)	[illegible]										
43 Media(38)	[illegible]										
44 Retailers, Food(16)	[illegible]										
45 Retailers, General(45)	[illegible]										
48 Support Services(41)	[illegible]										
49 Transport(16)	[illegible]										
51 Other Services & Business(7)	[illegible]										
60 UTILITIES(36)	[illegible]										
62 Electricity(17)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(4)	[illegible]										
68 Water(13)	[illegible]										
69 NON-FINANCIALS(637)	[illegible]										
70 FINANCIALS(104)	[illegible]										
71 Banks(10)	[illegible]										
73 Insurance(17)	[illegible]										
74 Life Assurance(6)	[illegible]										
75 Merchant Banks(8)	[illegible]										
77 Other Financial(24)	[illegible]										
79 Property(41)	[illegible]										
80 INVESTMENT TRUSTS(125)	[illegible]										
89 FT-SE-A ALL-SHARE(865)	1530.92	-0.4	1536.51	1536.31	1529.82	1561.15	3.95	6.64	17.82	52.83	1206.47

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3089.7	3099.9	3098.3	3092.7	3088.4	3079.0	3080.2	3078.0	3082.7	3100.3	3068.5
FT-SE Mid 250	3520.0	3525.8	3526.5	3522.4	3521.5	3520.3	3519.5	3516.3	3520.3	3527.1	3514.8
FT-SE-A 350	1548.4	1551.8	1550.6	1549.8	1547.3	1544.3	1544.7	1542.7	1545.7	1553.2	1540.1

Time of FT-SE 100 Day's high: 9.48am Day's low: 3.18pm. FT-SE 100 1994 High: 3520.3 (2/2) Low: 2876.6 (24/6).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	985.4	989.5	989.9	990.9	994.0	992.7	992.7	990.8	988.0	985.9	983.8	+2.3
Pharmaceuticals	2954.6	2961.7	2959.3	2962.5	2958.5	2948.5	2958.0	2955.3	2961.1	2960.7	2961.2	-0.5
Water	1920.5	1928.0	1928.5	1924.7	1925.5	1924.2	1924.3	1922.0	1937.8	1937.8	1933.1	+4.7
Banks	2902.6	2911.9	2909.0	2908.1	2900.8	2891.0	2892.2	2894.1	2899.3	2894.9	2915.3	-20.4

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i	221	318½	-1½
ASDA Group	16,000	61½	+1
Abbey National†	1,400	413	-2
Albert Fisher	356	43	+1
Allied Domecq†	2,100	560	-8
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent.

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Allied Domecq	550	48½	59	65	6	12½	21½
(*592)	600	16½	30	36½	27	34	45½
Argyll	280	18	25½	29½	9	14	18
[illegible]							

Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
Hanson	220	11	15	18½	2	7½	11
(*228)	240	1½	6	5½	12½	16½	22
Lasmo	134	13½	-	-	½	-	-
[illegible]							

Nov 2. Total contracts: 28,553 Calls: 14,209 Puts: 14,345 * Underlying security price. Premiums shown are based on settlement prices.

FT GOLD MINES INDEX

	Nov 2	% chg on day	Nov 1	Oct 31	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	2135.27	-1.0	2155.91	2169.85	1938.41	2.00	2367.40	1762.92
■ Regional Indices								
Africa (15)	3449.21	-1.5	3502.31	3585.21	2621.42	3.39	3711.57	2304.45
Australasia (7)	2765.55	-2.3	2831.59	2814.53	2301.84	1.78	3013.89	2171.56
North America (11)	1551.50	-0.3	1556.05	1553.20	1677.16	0.81	2029.65	1468.11

Copyright, The Financial Times Limited 1994. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: Nov 2: 264.4; day's change: +1.3 points; Year ago: 220.8 † Partial. Latest prices were unavailable for this edition.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	11	54	9
Other Fixed Interest	0	4	16
Mineral Extraction	20	90	86
General Manufacturers	80	156	397
Consumer Goods	22	54	111
Services	62	114	319
Utilities	11	24	9
Financials	45	142	178
Investment Trusts	28	164	273
Others	7	78	32
Totals	286	878	1425

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	October 24	Expiry	January 26
Last Dealings	November 4	Settlement	February 6

Calls: Kunick, Signet, Sleepy Kids, Southend Prop, Stanhope, Tullow Oil. Puts & Calls: Kunick, Tullow Oil.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	0.88	8⅓	4	APTA Wnts.	8½	+½				
-	F.P.	10.9	180	180	Andrews Pmtg	180					
[illegible]											

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
17	Nil	2/12	3pm	1pm	APTA Health	1pm	
20	Nil	9/12	4½pm	3½pm	Bullers	4pm	
[illegible]							

FINANCIAL TIMES EQUITY INDICES

	Nov 2	Nov 1	Oct 31	Oct 28	Oct 27	Yr ago	High	Low
Ordinary Share	2355.4	2360.0	2351.9	2345.1	2310.8	2363.7	2713.6	2240.6
Ord. div. yield	4.38	4.38	4.37	4.38	4.45	3.67	4.51	3.43
Earn. yld. % full	6.24	6.22	6.23	6.25	6.34	4.49	6.51	3.82
P/E ratio net	17.45	17.52	17.48	17.44	17.18	27.81	23.49	16.94
P/E ratio nil	17.08	17.15	17.15	17.09	16.95	27.02	26.80	17.05

For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40. FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2359.1	2366.7	2365.5	2365.7	2361.0	2355.5	2355.9	2351.4	2353.6	2366.8	2346.1

	Nov 2	Nov 1	Oct 31	Oct 28	Oct 27	Yr ago
SEAQ bargains	19,193	24,499	27,021	22,487	21,112	29,500
Equity turnover (£m)†	-	1075.0	1111.7	1184.9	1109.8	1283.0
Equity bargains†	-	29,580	29,117	26,618	24,353	33,244
Shares traded (mil)†	-	435.2	392.8	462.4	465.2	552.5

†Excluding intra-market business and overseas turnover.

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or –	1994 High	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£21½	–⅛	£25¼	£19⅝	6,621	5.2	ф
ANZ A$		174	–3	278½	171	2,315	5.2	27.5
Abbey National	†N□	413	–2	523	380½	5,418	4.7	13.9
Allied Irish £	♣†N□	282	+1	374	233	1,678	5.0	8.7
Anglo Irish £	N□	83	–1	*78	50	195.2	1.5	10.4
Asahi Y	□	684½	+½	878¼	628	15,420	0.7	ф
Banco Bil Viz Pts	□	£15⅝	–¼	£16⅞	£14½	3,585	5.1	7.3
Banco Sant Pts		£28¾	—	*£30½	£23¾	4,288	5.0	9.9
Bk Ireland £	♣□	279	–1	*319	248	1,323	4.7	8.1
Bank Scotland	♣†N□	208xd	—	247	173½	2,404	9.2	11.6
9¼pc Pf		109¼xd	–¼	141½	106	106.8	10.8	–
9¾pc Pf		112xd	—	148½	111¼	112.8	10.9	–
Barclays	♣†N□	583	–4	646	487	9,487	3.6	16.0
Dai Ichi Kan Y	□	£11⅛	–⅛	£12⅛	£10⅛	34,806	0.5	–
Deutsche DM	□	£297⅝	–2⅞	£344¼	£270⅞	14,162	2.3	–
Espirito Santo	□	£8⅞	–¼	*£13⅞	£8⅞	177.4	4.4	4.4
First Nat Fin	N□	68	—	*80	60	114.8	2.8	–
6.3pc Cv Pf		71	—	*80	71	4.77	11.1	–
7pc Cv Pf		125½	—	171	123	58.8	7.0	–
Fuji Bank Y	□	1355¼	+2¾	1649¼	1152½	38,276	0.4	ф
HSBC HK	†N□	714xd	–10	1133	660	12,495	4.3	10.3
HSBC (75p Shs)	†N□	712xd	–7	1113	650	6,069	4.3	10.3
Lloyds	†N□	572	—	668	510	7,418	5.6	11.3
Mitsubishi Y	□	£14⅝	–⅛	21⅝	£14⅞	42,961	0.4	ф
Mits Tst & Bk Y	□	962¼	–2¼	1162¼	887½	11,412	0.5	15.2
Mitsui Tst & Bk Y	□	691¼	–4¼	879	514	8,283	0.8	23.4
Nat Aust A$	†	478	–1	620¼	472	6,398	5.8	10.5
NatWest	†N□	503	–6	622	421	8,601	4.8	8.4
Ottomane FFr		£22	—	£33	£21¼	110.8	8.6	ф
Ryl Bk Scotland	♣†N□	457	+6	528	377½	3,660	3.3	20.7

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Notes	Price	+ or -	1994 high	1994 low	Yld Gr's	NAV	Dis or Pm(-)
Perpetual Japan □	102	-1	120	89	-	100.2	-1.8
Warrants □	46	-2	68	46½	-	-	-
Personal Assets	1007xd	—	1094	679	2.8	8592.1	-1.2
Pilot Inv N□	125	—	153	124	1.5	124.8	-0
Warrants □	44	—	56	40½	-	-	-
Piper Euro Smlr □	94	—	98	91	-	90.7	-3.5
Warrants □	41	—	42	33	-	-	-
Primadona N	272	+1	298	261	2.1	300.3	8.4
Ptarmigan Inf N□	222	—	*278	206	1.8	238.4	6.1
Warrants	21	—	140	78	-	-	-
RIT Capital N□	176	-1	146	164½	1.1	212.7	18.2
2½pc Cv Ln 2000	£175	—	£186½	£170½	1.4	-	-
Radiotrust	70	—	89	69	-	71.3	1.8
Rights & Iss Inc KN	155	—	164	153	7.3	-	-
Cap N	483	—	546	440	2.3	542.1	10.9
Riv & Merc Am Inc	104xd	—	121	104	9.4	-	-
Cap □	29½	—	38	29	-	39.2	24.7
Warrants	14	—	17	13	-	-	-
Riv & Mer Ext N□	92xd	-1	147	91	10.6	100.6	8.5
Warrants	16	-4	49	14	-	-	-
Zero Div Pf	109	—	110½	108	-	-	-
Riv & Mer Geared N	67	—	116	66	11.0	-	-
Prfd Cap 1999	28	—	35	23	-	33.5	16.4
Riv & Merc Smlr N□	122xd	—	270	116	4.2	135.9	10.2
Warrants	35	—	77	31	-	-	-
Riv & Merc Tst Inc N	113	-1	127	112½	10.2	-	-
Cap □	121	-1	150	118	-	185.4	34.7
Warrants	25	-1	40	25	-	-	-
Do. Stepd Prf N	150	—	186	144	4.9	-	-
River Plate Inc N□	105	—	113	105	10.2	-	-
Cap □	77	—	118	78	-	119.8	35.8
Warrants	2	-¾	11	2	-	-	-

SOUTH AFRICANS

Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind.	£29¾	—	£30	£13½	1,939	2.5	21.0
Barlow Z	£4½	—	£5½	£3⅛	960.0	0.7	-
Gold Flds Prop R	118xd	—	128	75	12.1	7.7	♦
MK Props	86	—	86	86	3.02	12.3	-
SASOL ♥	567	—	602	380	3,321	2.4	-
SA Brews	£14⅜	—	£16⅞	£10	3,999	1.6	23.5
Tiger Oats †	728	—	836	538	1,094	2.2	15.4
Tongaat-Hulett §	695	—	†695	356¼	633.4	1.0	19.4

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR "Headline Earnings"
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Pleaee quote the code **FT2585**. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availabilty.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See *Monday's share price pages for details.*

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

هكذا من الأصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

Credit Investment Funds - Contd.

Nikko Bank - Contd.

Nomura Asian Infrastructure Fd SICAV

Nomura Rosenberg Alpha Fund Mark II

Pacific Basin Growth Fund

Rosenberg Global Mgmt Co SA (x)

CMI Insurance Co Ltd - Contd.

Century Life International

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Abtrust Fund Mngrs (Guernsey) Ltd

Adig Investment

Asian Malaysian Growth Fd (Cayman) Ltd

Ermitage Group

Jardine Fleming Unit Trusts Ltd - Contd.

Pakistan Fund

Panther Capital Advisors

Pequot International Fund Inc

Peru Select Group of Funds Limited

Philippine Income Fund Inc

Portuguese Investment Fund Ltd

Private Asset Management GAM Fund Inc

Springfield Fund Mgmt (Gibraltar) Ltd

Sri Lanka Growth Fund

State Street Banque SA

Strome Offshore Limited

Swiss Bank Corporation

OFFSHORE INSURANCES

Smith Barney Funds

Sodific Asset Management Inc

Carl Spaengler KAG

MANAGED FUNDS NOTES

... - Historic pricing F - Forward pricing
... - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
x - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
y - Offered price includes all expenses except agent's commission.
z - Previous day's price.
... - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision.
‡ - Only available to charitable bodies.
... - Yield column shows annualized rates of NAV increase.
xd - Ex-dividend.

CURRENCIES AND MONEY

MARKETS REPORT

Fed intervention pulls dollar off post-war low

The US Federal Reserve yesterday intervened repeatedly in currency markets to support the dollar after it touched a fresh low against the yen of Y96.05, *writes Philip Gawith*.

The dollar recovered on the intervention to trade around Y97.30 and DM1.51 in the New York afternoon.

In the absence of concerted intervention, and supportive monetary policy changes, however, most analysts remained resolutely bearish of the dollar, with predictions that it will soon fall to DM1.45 and Y95.

Yesterday the Fed was alone in its intervention; in May and June it had the support of 16 other central banks. The Fed first intervened to support the dollar on April 29 when it was at Y101.45 and DM1.6590.

Some observers believe there is a good chance of concerted intervention before the weekend, quite possibly accompanied tomorrow by a rise in interest rates, after the release of the US payroll figures.

Elsewhere, the main market move came from the lira which fell to L1,030, from L1,027. The stronger D-Mark, as the dollar fell, and ongoing political weakness, were the main factors behind the lira's fall.

Sterling had a steady day, with the trade weighted index finishing at 81.1, from 80.9.

■ There was no apparent trigger for the dollar's decline, though analysts cited the violation of the November 1 deadline for a US-Japan agreement on flat glass, and rumours that the Bank of Japan had stopped intervening to support the dollar, as souring sentiment.

A further factor supporting the yen has been the better than expected performance from Japanese corporates in the current results season.

■ Pound in New York

Nov 2	—Latest—	—Prev. close—
£ spot	1.6345	1.6335
1 mth	1.6337	1.6328
3 mth	1.6330	1.6320
1 yr	1.6242	1.6223

This, said one analyst, lay behind the heavy dollar selling during Japanese trading, as the realisation set in that the stronger yen was not hurting Japanese corporates as much as had been predicted.

Short term money market rates also nudged up in Japan yesterday, and this provided a further incentive for Japanese investors not to buy the dollar.

Mr Neil MacKinnon, chief economist at Citibank in London, said "This move looks like it has Y90 written on it." He said there was "very little" the authorities could do to stop the dollar's fall as it was fundamentally based.

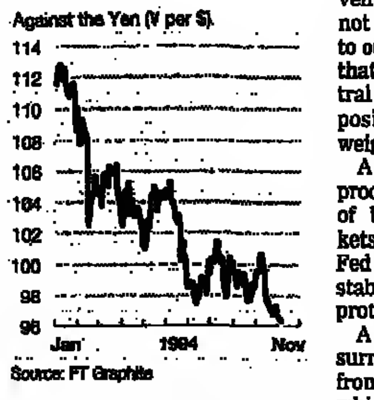
The Fed first bought dollars at Y96.10 and DM1.4956, and continued with waves of buying up to and beyond Y97.75 and DM1.5130.

The Fed's move was supported by both the Bundesbank and the Bank of France, but analysts agreed that the dollar needed momentum, rather than verbal, support.

Mr Avinash Persaud, head of currency strategy at JP Morgan in Europe, commented: "I think the market is going to brush this aside unless it sees the Bundesbank come in. It is not a strong enough signal that the US and Japan are serious about changing their monetary policy to support the dollar."

Dollar

Against the Yen (Y per $)



Source: FT Graphite

"This intervention buys time, but it will be unsuccessful in stopping the dollar's decline," said Mr MacKinnon.

Another problem with intervention is that the market is not correctly positioned for it to succeed. The general view is that the market is roughly neutral in terms of its $/D-Mark positioning, and still underweight yen.

A key factor in how the Fed proceeds will be the response of US bond and equity markets. Some analysts believe the Fed is more concerned in the stability of these markets than protecting the dollar.

A measure of bearishness surrounding the dollar comes from Swiss Bank Corporation, which is forecasting the dollar at Y90 and DM1.45 a year out. Furthermore, the bank believes that the dollar is more likely to reach DM1.25, than DM1.70, and thinks that the risk with its yen forecast is that it will reach Y90 much sooner.

■ Analysts said the lira's weakness was attributable more to dollar weakness, and commensurate D-Mark strength, than Italian factors.

Mr Giorgio Radaelli, international economist at Lehman Brothers, said insofar as the lira was weaker than other European currencies, this reflected ongoing political uncertainty in Italy, and the fact that the budget had not yet been approved.

He predicted that if the dollar fell to DM1.45, then the lira could go to L1,040.

■ The Bank of England cleared a £1.2bn shortage in UK money markets at established rates. The December short sterling contract closed at 93.52, from 93.51, and three month LIBOR was unchanged at 6¼ per cent.

■ OTHER CURRENCIES

Nov 2	£	$
Hungary	175.378 - 175.620	106.790 - 106.890
Iran	2862.00 - 2865.00	1748.00 - 1750.00
Kuwait	0.4861 - 0.4888	0.2963 - 0.2970
Poland	37770.8 - 37938.2	23030.0 - 23030.0
Russia	5085.45 - 5092.08	3098.00 - 3100.00
U.A.E.	5.9949 - 6.0038	3.6713 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Nov 2		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2802	-0.0826	716 - 895	17.3564	17.1822	17.2768	0.3	17.264	0.4	-	-	115.6
Belgium	(BFr)	50.5264	+0.1301	812 - 716	50.5715	50.1770	50.4964	0.7	50.4264	0.8	49.9514	1.1	117.3
Denmark	(DKr)	9.6120	+0.0231	060 - 160	9.6160	9.5478	9.6096	0.3	9.6243	-0.5	9.6039	0.1	117.2
Finland	(FM)	7.5744	+0.0567	643 - 844	7.5870	7.4960	-	-	-	-	-	-	88.5
France	(FFr)	8.4153	+0.0275	116 - 167	8.4187	8.3595	8.4142	0.1	8.4083	0.3	8.3378	0.9	110.7
Germany	(DM)	2.4548	+0.0038	538 - 558	2.4568	2.4395	2.4536	0.6	2.4499	0.8	2.4183	1.6	126.6
Greece	(Dr)	378.036	+0.35	903 - 169	378.317	376.328	-	-	-	-	-	-	68.5
Ireland	(I£)	1.0137	+0.0007	130 - 144	1.0154	1.0106	1.0135	0.2	1.0132	0.2	1.0149	-0.1	108.0
Italy	(L)	2528.13	+11.34	603 - 022	2530.22	2505.42	2533.88	-2.7	2545.23	-2.7	2591.73	-2.5	74.2
Luxembourg	(LFr)	50.5264	+0.1301	612 - 710	50.5715	50.1770	50.4964	0.7	50.4264	0.8	49.9514	1.1	117.3
Netherlands	(Fl)	2.7528	+0.0063	517 - 538	2.7538	2.7352	2.7510	0.8	2.7477	0.7	2.7118	1.5	121.3
Norway	(NKr)	10.7133	+0.0306	090 - 176	10.7182	10.6476	10.7133	0.0	10.710	-0.1	10.7195	0.0	98.4
Portugal	(Es)	250.907	+0.397	764 - 050	251.050	248.857	252.637	-8.3	255.817	-7.8	-	-	-
Spain	(Pta)	204.726	+0.763	635 - 818	204.818	203.320	205.098	-2.2	210.121	-10.5	206.221	-1.7	88.0
Sweden	(SKr)	11.7900	+0.0465	793 - 007	11.8136	11.7007	11.809	-1.9	11.8515	-2.1	11.996	-1.7	75.8
Switzerland	(SFr)	2.0451	+0.0006	437 - 484	2.0484	2.0330	2.042	1.6	2.0353	1.9	1.993	2.5	123.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	81.1
Ecu	-	1.2892	+0.0022	885 - 898	1.2898	1.2816	1.2892	0.0	1.2893	0.0	1.2823	0.5	-
SDR†	-	0.911210	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6412	+0.0069	407 - 417	1.6419	1.6329	-	-	-	-	-	-	-
Brazil	(R)	1.3856	+0.0061	844 - 867	1.3867	1.3787	-	-	-	-	-	-	-
Canada	(C$)	2.2259	+0.0116	249 - 269	2.2281	2.2177	2.2252	0.4	2.2233	0.5	2.217	0.4	88.5
Mexico	(New Peso)	5.6481	+0.0273	428 - 536	5.6536	5.6250	-	-	-	-	-	-	-
USA	($)	1.6426	+0.0079	422 - 430	1.6440	1.6347	1.6418	0.6	1.6413	0.3	1.6321	0.6	60.6
Pacific/Middle East/Africa													
Australia	(A$)	2.2130	+0.0055	117 - 143	2.2172	2.2061	2.2161	-1.1	2.2178	-0.8	2.2317	-0.8	-
Hong Kong	(HK$)	12.6933	+0.0616	898 - 968	12.7027	12.6330	12.6867	0.6	12.6808	0.4	12.6112	0.6	-
India	(Rs)	51.6105	+0.307	610 - 366	51.6395	51.3160	-	-	-	-	-	-	-
Japan	(Y)	158.027	-0.133	947 - 106	158.180	157.410	157.802	1.2	156.802	3.6	151.387	4.2	190.9
Malaysia	(M$)	4.1964	+0.0148	945 - 982	4.1991	4.1613	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6612	+0.0047	594 - 629	2.6662	2.6547	2.6656	-2.1	2.6751	-2.1	2.695	-1.3	-
Philippines	(Peso)	40.6167	+0.1976	269 - 107	40.9107	40.3275	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1613	+0.0296	594 - 632	6.1662	6.1324	-	-	-	-	-	-	-
Singapore	(S$)	2.4087	+0.0098	075 - 098	2.4101	2.3961	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.7405	+0.0269	378 - 432	5.7460	5.7083	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.7183	+0.0616	084 - 281	6.7281	6.6469	-	-	-	-	-	-	-
South Korea	(Won)	1311.37	+8.64	097 - 177	1312.41	1302.52	-	-	-	-	-	-	-
Taiwan	(T$)	42.7336	+0.2166	013 - 665	42.7665	42.4267	-	-	-	-	-	-	-
Thailand	(Bt)	40.8917	+0.1848	776 - 058	40.9220	40.6960	-	-	-	-	-	-	-

†SDR rates for Nov 1. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 2		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.5200	-0.0805	175 - 225	10.6075	10.5025	10.52	0.0	10.5198	0.0	10.445	0.7	104.6
Belgium	(BFr)	30.7600	-0.07	400 - 800	30.7880	30.6950	30.76	0.0	30.723	0.5	30.645	0.4	106.3
Denmark	(DKr)	5.8517	-0.0143	507 - 527	5.8600	5.8380	5.8557	-0.8	5.8642	-0.8	5.9027	-0.9	106.8
Finland	(FM)	4.6112	-0.0135	082 - 162	4.6241	4.5844	4.6116	-0.2	4.6097	0.1	4.6052	0.1	83.0
France	(FFr)	5.1232	-0.0061	223 - 240	5.1303	5.1110	5.1249	-0.4	5.1232	0.0	5.1152	0.2	107.0
Germany	(DM)	1.4945	-0.0049	942 - 947	1.4970	1.4915	1.4946	-0.1	1.4927	0.5	1.4823	0.8	107.6
Greece	(Dr)	230.145	-0.605	120 - 170	230.710	230.120	230.415	-1.4	230.97	-1.4	233.22	-1.3	68.5
Ireland	(I£)	1.6204	+0.0067	196 - 211	1.6211	1.6136	1.6203	0.0	1.6205	0.0	1.6074	0.8	-
Italy	(L)	1539.10	-0.55	820 - 000	1541.00	1532.50	1543.35	-3.3	1550.6	-3.1	1590.8	-3.3	74.7
Luxembourg	(LFr)	30.7600	-0.07	400 - 800	30.7880	30.6950	30.76	0.0	30.725	0.5	30.645	0.4	106.3
Netherlands	(Fl)	1.6759	-0.0043	756 - 761	1.6815	1.6727	1.676	0.0	1.6741	0.4	1.6636	0.7	106.0
Norway	(NKr)	6.5221	-0.0129	211 - 231	6.5315	6.5048	6.5248	-0.5	6.5378	-1.0	6.5696	-0.7	96.6
Portugal	(Es)	152.750	-0.5	700 - 800	153.100	152.650	153.375	-4.9	154.5	-4.6	159	-4.1	95.3
Spain	(Pta)	124.635	-0.14	610 - 660	124.900	124.370	124.92	-2.7	125.9	-2.4	127.785	-2.5	61.0
Sweden	(SKr)	7.1777	-0.0054	729 - 824	7.2116	7.1651	7.1925	-2.5	7.2217	-2.5	7.3617	-2.6	61.1
Switzerland	(SFr)	1.2450	-0.0056	445 - 455	1.2472	1.2425	1.2437	1.3	1.24	1.6	1.2225	1.8	106.4
UK	(£)	1.6426	+0.0079	422 - 430	1.6440	1.6347	1.6418	0.6	1.6413	0.3	1.6321	0.6	89.1
Ecu	-	1.2742	+0.004	738 - 745	1.2758	1.2716	1.2736	0.6	1.2732	0.3	1.2712	0.2	-
SDR†	-	1.49165	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9992	+0.0006	991 - 992	0.9992	0.9991	-	-	-	-	-	-	-
Brazil	(R)	0.8436	-0.001	430 - 440	0.8440	0.8430	-	-	-	-	-	-	-
Canada	(C$)	1.3551	+0.0006	548 - 553	1.3575	1.3545	1.3549	0.1	1.3546	0.1	1.3601	-0.4	83.3
Mexico	(New Peso)	3.4395	-	380 - 410	3.4410	3.4360	3.4395	-0.3	3.4413	-0.3	3.4487	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	93.9
Pacific/Middle East/Africa													
Australia	(A$)	1.3473	-0.0032	468 - 477	1.3516	1.3468	1.3476	-0.2	1.3483	-0.3	1.3556	-0.6	95.3
Hong Kong	(HK$)	7.7276	+0.0001	273 - 278	7.7276	7.7273	7.7266	0.1	7.7262	0.1	7.7361	-0.1	-
India	(Rs)	31.4200	+0.025	100 - 300	31.4300	31.4000	31.505	-3.2	31.65	-2.9	-	-	-
Japan	(Y)	96.2050	-0.59	800 - 300	96.6200	96.0800	95.985	2.7	95.405	3.3	92.84	3.5	151.0
Malaysia	(M$)	2.5547	-0.0034	542 - 552	2.5576	2.5542	2.5455	4.3	2.5342	3.2	2.6077	-2.1	-
New Zealand	(NZ$)	1.6201	-0.005	194 - 207	1.6255	1.6221	1.6211	-0.7	1.6229	-0.7	1.6282	-0.5	-
Philippines	(Peso)	24.8500	-	000 - 000	24.9000	24.8000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7510	-	507 - 512	3.7512	3.7507	3.7523	-0.4	3.7564	-0.6	3.775	-0.6	-
Singapore	(S$)	1.4864	-0.0011	860 - 867	1.4870	1.4860	1.465	1.1	1.4851	0.3	1.4564	0.7	-
S Africa (Com.)	(R)	3.4948	-0.0005	940 - 955	3.4990	3.4915	3.5103	-5.3	3.5396	-5.0	3.6153	-3.4	-
S Africa (Fin.)	(R)	4.0900	+0.03	850 - 950	4.0950	4.0650	4.1237	-9.8	4.1825	-9.0	-	-	-
South Korea	(Won)	798.350	+1.4	300 - 400	798.400	796.600	801.35	-4.5	804.85	-3.3	823.35	-3.1	-
Taiwan	(T$)	26.0160	+0.006	025 - 295	26.0295	26.0025	26.036	-0.6	26.078	-0.9	-	-	-
Thailand	(Bt)	24.8945	-0.008	920 - 970	24.8980	24.8800	24.967	-3.5	25.0945	-3.2	25.5745	-2.7	-

†SDR rate for Nov 1. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 1. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 2	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4¾	4⅝	5¼	5⅞	6⅞	7.40	4.50	-
week ago	4⅞	4⅝	5¼	5⅞	6⅞	7.40	4.50	-
France	5⅝	5⅞	5⅝	5⅝	6⅞	5.00	-	5.75
week ago	5⅝	5⅞	5⅝	5⅝	6⅝	5.00	-	5.75
Germany	4.93	4.95	5.10	5.25	5.60	6.00	4.50	4.88
week ago	4.75	4.95	5.15	5.30	5.65	6.00	4.50	4.86
Ireland	5½	5¼	5⅝	6⅛	7⅛	-	-	6.25
week ago	5½	5⅛	5⅞	6⅛	7⅛	-	-	6.25
Italy	8⅛	8⅝	8⅝	9¼	10⅛	-	7.50	8.20
week ago	8¼	8⅝	8⅝	9⅛	10⅛	-	7.50	8.20
Netherlands	4.84	5.03	5.23	5.36	5.76	-	5.25	-
week ago	4.84	5.03	5.20	5.35	5.74	-	5.25	-
Switzerland	3⅞	3⅞	4⅛	4⅞	4⅝	6.625	3.50	-
week ago	3⅞	3⅞	4⅛	4⅝	4⅝	6.625	3.50	-
US	4¾	5⅞	5⅝	5⅞	6⅞	-	4.00	-
week ago	4⅞	5⅛	5⅝	5⅞	6½	-	4.00	-
Japan	2⅛	2¼	2⅜	2⅞	2¾	-	1.75	-
week ago	2¼	2¼	2⅜	2⅞	2¾	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅛	5⅝	6	6⅝	-	-	-
week ago	-	5⅛	5⅝	6	6⅝	-	-	-
US Dollar CDs	-	4.96	5.37	5.74	6.41	-	-	-
week ago	-	4.98	5.36	5.74	6.32	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅞	4	-	-	-
week ago	-	3⅝	3⅝	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅛; 3 mths: 5⅝; 6 mths: 6⅛; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 2	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4¹³⁄₁₆ - 4⅞	4¹³⁄₁₆ - 4⅞	0 - 4⅞	5¼ - 5⅛	5⅝ - 5⁷⁄₁₆	6⅜ - 6¼
Danish Krone	5½ - 5¼	5⅝ - 5¼	5¹³⁄₁₆ - 5⅝	6½ - 6¼	6¹³⁄₁₆ - 6¹¹⁄₁₆	7⅜ - 7⅜
D-Mark	0 - 4⅞	4¹³⁄₁₆ - 4¹¹⁄₁₆	5 - 4⅞	5⅜ - 5⅛	5¾ - 6⅛	6¹³⁄₁₆ - 6⅜
Dutch Guilder	5 - 4⅞	5 - 4⅞	5 - 4⅞	5⅝ - 5⅛	5⅞ - 5¾	5¾ - 5⅝
French Franc	5⅜ - 5¼	5⅞ - 5⅝	5⅞ - 5⅝	5⅝ - 5½	5¹³⁄₁₆ - 5¹¹⁄₁₆	6⅜ - 6¼
Portuguese Esc.	9¼ - 9⅛	9¼ - 9⅛	10 - 9½	10½ - 10	10½ - 10¼	10⅝ - 10⅝
Spanish Peseta	7⅞ - 7⅜	7⅝ - 7⁷⁄₁₆	7⅝ - 7½	5 - 7¹³⁄₁₆	8⅜ - 8⅛	9⅛ - 9
Sterling	5¾ - 5⅝	5½ - 5⅜	5¾ - 5¹¹⁄₁₆	6⅛ - 6	6⅝ - 6½	7⅞ - 7⅜
Swiss Franc	4 - 3⅞	3¾ - 3⅝	3¾ - 3⅝	4⅛ - 3¹⁵⁄₁₆	4¼ - 4⅛	4⅝ - 4½
Can. Dollar	5⅛ - 4¹³⁄₁₆	5⅛ - 4¹³⁄₁₆	5⅛ - 5	5⅝ - 5⁷⁄₁₆	6⅛ - 6	7 - 6⅞
US Dollar	4¾ - 4⅝	4¹³⁄₁₆ - 4¹¹⁄₁₆	5⅛ - 0	5¹¹⁄₁₆ - 5⁹⁄₁₆	6 - 5⅞	6⅝ - 6½
Italian Lira	9 - 7½	8⅜ - 0¼	8⅜ - 8¼	8¾ - 8⅝	9¼ - 9⅛	10⅛ - 10
Yen	2¼ - 2⅛	2⅜ - 2¼	2⅜ - 2¼	2⅜ - 2¼	2½ - 2⅜	2¹³⁄₁₆ - 2¾
Asian $Sing	2⅞ - 2¾	2¾ - 2⅝	3 - 2⅞	3⅜ - 3¼	3¾ - 3⅝	4⅛ - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.28	94.26	-0.03	94.29	94.25	8,763	55,259
Mar	93.81	93.81	-0.04	93.84	93.78	9,977	37,110
Jun	93.39	93.38	-0.06	93.41	93.36	6,531	28,842
Sep	92.96	92.99	-0.06	93.02	92.96	3,771	19,376

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.98	93.98	-0.03	93.98	93.98	2	2490
Mar		93.48	-0.06			0	1386
Jun		92.99	-0.07			0	350
Sep		92.62	-0.10			0	56

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.81	94.82	-	94.84	94.80	16905	156317
Mar	94.50	94.52	-0.01	94.55	94.48	44548	158071
Jun	94.10	94.12	-0.02	94.10	94.07	29011	110354
Sep	93.70	93.71	-0.04	93.77	93.68	11541	77845

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90.88	90.85	-0.06	90.88	90.79	5730	33433
Mar	90.10	90.09	-0.06	90.12	89.96	3164	30702
Jun	89.52	89.49	-0.09	89.57	89.43	947	16549
Sep	89.10	89.12	-0.09	89.15	89.05	582	20491

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.81	95.85	-	95.86	95.81	1116	20406
Mar	95.53	95.54	+0.01	95.55	95.50	1499	18110
Jun	95.10	95.14	+0.01	95.14	95.10	334	5234
Sep	94.77	94.77	-0.02	94.77	94.77	20	1940

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.65	93.66	-0.03	93.67	93.61	1045	7935
Mar	93.39	93.40	-0.03	93.43	93.36	516	6928
Jun	92.89	92.89	-0.04	92.92	92.86	201	3866
Sep	92.41	92.39	-0.05	92.43	92.38	197	2461

* LIFFE futures traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 2		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.02	16.65	4.858	2.007	5003	5.448	21.20	496.5	405.1	23.33	4.047	1.979	4.405	3.252	312.7	2.551
Denmark	(DKr)	52.57	10	8.755	2.554	1.055	2630	2.864	11.14	261.0	213.0	12.27	2.128	1.040	2.316	1.709	164.4	1.341
France	(FFr)	60.05	11.42	10	2.917	1.205	3004	3.272	12.73	298.2	243.3	14.01	2.430	1.188	2.645	1.952	187.8	1.532
Germany	(DM)	20.58	3.915	3.428	1	0.413	1030	1.121	4.363	102.2	83.38	4.802	0.833	0.407	0.907	0.669	64.36	0.525
Ireland	(I£)	49.83	9.479	8.299	2.421	1	2493	2.715	10.56	247.4	201.6	11.63	2.017	0.986	2.196	1.620	155.8	1.271
Italy	(L)	1.999	0.380	0.333	0.097	0.040	100.	0.109	0.424	9.925	8.097	0.466	0.081	0.040	0.088	0.065	6.250	0.051
Netherlands	(Fl)	18.35	3.491	3.057	0.892	0.368	918.3	1	3.890	91.14	74.36	4.283	0.743	0.363	0.809	0.597	57.39	0.468
Norway	(NKr)	47.16	8.975	7.857	2.292	0.947	2360	2.570	10	234.3	191.1	11.01	1.909	0.934	2.078	1.534	147.5	1.204
Portugal	(Es)	20.14	3.831	3.354	0.978	0.404	1008	1.097	4.269	100.	81.58	4.699	0.315	0.399	0.887	0.655	62.97	0.514
Spain	(Pta)	24.68	4.696	4.111	1.199	0.495	1235	1.345	5.232	122.6	100.	5.760	0.999	0.489	1.087	0.803	77.16	0.630
Sweden	(SKr)	42.86	8.153	7.137	2.082	0.860	2144	2.335	9.084	212.8	173.6	10	1.735	0.848	1.886	1.394	134.0	1.093
Switzerland	(SFr)	24.71	4.700	4.115	1.200	0.496	1236	1.346	5.237	122.7	100.1	5.765	1	0.489	1.089	0.803	77.26	0.630
UK	(£)	50.53	9.612	8.416	2.455	1.014	2528	2.753	10.71	250.9	204.7	11.79	2.045	1	2.226	1.643	158.0	1.289
Canada	(C$)	22.70	4.316	3.780	1.100	0.456	1136	1.237	4.811	112.7	91.96	5.295	0.916	0.449	1	0.738	70.96	0.579
US	($)	30.75	5.850	5.122	1.494	0.617	1539	1.676	6.516	152.7	124.6	7.178	1.245	0.609	1.355	1	96.17	0.785
Japan	(Y)	31.98	6.084	5.326	1.554	0.642	1600	1.742	6.778	158.8	129.6	7.462	1.294	0.633	1.409	1.040	100.	0.816
Ecu		39.20	7.457	6.528	1.905	0.787	1961	2.136	8.309	194.6	158.8	9.147	1.587	0.776	1.727	1.275	122.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6691	0.6697	+0.0010	0.6708	0.6683	39,288	86,845
Mar	0.6716	0.6710	+0.0010	0.6716	0.6696	254	5,445
Jun	-	0.6711	-	-	-	5	1,257

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.0384	1.0433	+0.0048	1.0437	1.0384	22,320	61,991
Mar	1.0470	1.0516	+0.0050	1.0520	1.0470	440	7,408
Jun	1.0600	1.0610	+0.0026	1.0615	1.0600	56	723

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8038	0.8047	+0.0016	0.8061	0.8031	20,959	41,366
Mar	0.8074	0.8083	+0.0016	0.8083	0.8065	101	2,074
Jun	0.8108	0.8120	+0.0017	0.8120	0.8108	1	179

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6330	1.6360	+0.0052	1.6380	1.6330	11,153	44,973
Mar	1.6360	1.6360	+0.0066	1.6360	1.6348	113	013
Jun	-	1.6300	-	1.6300	-	6	13

UK INTEREST RATES

LONDON MONEY RATES

Nov 2	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 4	5¼ - 5⅛	5¾ - 5⅝	6⅛ - 6⅛	6⅝ - 6½	7⅞ - 7⅜
Sterling CDs	-	-	5¹³⁄₁₆ - 5⅝	6⅛ - 6	6⅝ - 6½	7⅞ - 7⅜
Treasury Bills	-	-	5⅝ - 0⅞	5⅞ - 5¾	-	-
Bank Bills	-	-	5⅝ - 5⅝	5⅞ - 6	6½ - 6⅜	-
Local authority deps.	5¹³⁄₁₆ - 5¹¹⁄₁₆	5¹¹⁄₁₆ - 5⁹⁄₁₆	5¾ - 5⅝	6⅛ - 6¹⁄₁₆	6¹³⁄₁₆ - 6⅞	7⅞ - 7⅜
Discount Market deps	6½ - 5⅝	5⅝ - 5½	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.4342pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 31, 1994. Agreed rate for period Nov 26, 1994 to Dec 25, 1994, Schemes II & III 7.23pc. Reference rate for period Oct 1, 1994 to Oct 31, 1994, Schemes IV & V 5.998pc. Finance House Base Rate 6pc from Nov 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.47	93.52	+0.01	93.54	93.46	26680	145136
Mar	92.66	92.72	+0.02	92.76	92.62	26258	71677
Jun	92.00	92.11	+0.06	92.15	92.00	10605	56810
Sep	91.57	91.66	+0.06	91.71	91.57	5751	54456

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.17	0.08	0.08	0.15	0.84	1.47
9375	0.06	0.02	0.05	0.29	1.06	1.69
9400	0.02	0	0.03	0.50	1.28	1.92

Est. vol. total, Calls 13294 Puts 7804. Previous day's open int., Calls 350309 Puts 209619

EMS EUROPEAN CURRENCY UNIT RATES

Nov 2	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14676	-0.00125	-2.27	5.93	-
Ireland	0.808628	0.791662	+0.001171	-2.07	5.71	14
Belgium	40.2123	39.4005	-0.0159	-2.02	5.65	15
Germany	1.94964	1.91606	-0.00111	-1.77	5.39	-
France	6.53883	6.56556	+0.00401	0.41	3.10	-3
Denmark	7.43679	7.49932	+0.0024	0.84	2.65	-6
Portugal	192.854	195.924	-0.058	1.59	1.80	-11
Spain	154.250	159.676	+0.117	3.52	0.00	-25
NON ERM MEMBERS						
Greece	264.513	295.211	-0.176	11.61	-7.25	-
Italy	1793.16	1967.46	-3.12	9.72	-5.65	-
UK	0.786749	0.782136	+0.001576	-0.59	4.13	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.550	8.95	9.17	9.09	-	0.04	0.28
1.575	6.48	6.81	7.01	-	0.27	0.61
1.600	4.05	4.79	5.10	0.03	0.57	1.17
1.625	1.93	3.00	3.48	0.32	1.27	2.03
1.650	0.63	1.71	2.27	1.26	2.41	3.19
1.675	0.08	0.86	1.38	3.16	3.99	4.77

Previous day's vol., Calls 5,676 Puts 13,543. Prev. day's open int., Calls 459,294 Puts 418,697

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	93.99	93.98	-0.02	94.01	93.98	83,993	417,278
Mar	93.52	93.50	-0.02	93.53	93.49	129,690	405,842
Jun	93.02	92.99	-0.04	93.04	92.99	80,394	298,077

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.59	94.58	-0.02	94.61	94.58	1,249	17,763
Mar	94.07	94.06	-0.01	94.07	94.06	471	10,344
Jun	93.57	93.57	-0.02	93.57	93.57	102	5,952

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9475	0.10	0.13	0.07	0.12	0.03	0.06	0.30	0.35
9500	0.01	0.03	0.02	0.05	0.19	0.21	0.50	0.53
9525	0	0	0.01	0.02	0.43	0.43	0.74	0.75

Est. vol. total, Calls 7460 Puts 8040. Previous day's open int., Calls 208716 Puts 185629

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9575	0.16	0.11	0.06	0.06	0.32	0.67
9600	0.04	0.05	0.02	0.19	0.51	0.88
9625	0.01	0.02	0.01	0.41	0.73	1.12

Est. vol. total, Calls 100 Puts 0. Previous day's open int., Calls 2465 Puts 1146

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	6
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williamson Secs.	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Cl. Bank Nederland	5.75	●Leopold Joseph & Sons	5.75	● Members of London Investment Banking Association.	
Citibank NA	5.75	Lloyds Bank	5.75	* In administration	
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	* Mount Banking	6		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

HSBC GLOBAL INVESTMENT FUNDS
Société d'Investissement à capital variable
Registered office: 7 Rue du Marché-aux-Herbes, L-1728 Luxembourg
R.C. Luxembourg B-25087

NOTICE

Shareholders are hereby informed that the shareholders of HSBC Global Investment Funds - Canadian Equity ("Canadian Equity"), of HSBC Global Investment Funds - South Pacific Equity ("South Pacific Equity"), of HSBC Global Investment Funds - United Kingdom Equity ("United Kingdom Equity") of HSBC Global Investment Funds - European Equity ("European Equity") have, at the respective class meetings held in Luxembourg on October 27th 1994, voted in favour of the following amalgamations of sub-funds:

Canadian Equity to be amalgamated with HSBC Global Investment Funds - North American Equity.

South Pacific Equity to be amalgamated with HSBC Global Investment Funds - Asian Equity.

United Kingdom Equity to be amalgamated with HSBC Global Investment Funds - Pan European Equity.

European Equity to be amalgamated with HSBC Global Investment Funds - Pan European Equity

Such amalgamations will become effective one month following this notice.

Shareholders of Canadian Equity, of South Pacific Equity, of United Kingdom Equity and of European Equity, who do not approve the amalgamations are entitled to redeem their shares until December 2nd 1994, without redemption charge, or to switch their shares into shares of another sub-fund of HSBC Global Investment Funds.

On December 5th 1994, in exchange for their shares in the sub-funds being absorbed by way of contribution of their net assets in the recipient sub-funds, shareholders of Canadian Equity, of South Pacific Equity, of United Kingdom Equity and of European Equity not having redeemed their shares will be entitled to and will automatically receive an appropriate number of shares in the respective absorbing sub-funds, corresponding to their respective shareholding in the original sub-funds. Confirmation advices of their number of shares in the absorbing sub-funds will be sent to the registered shareholders concerned.

Holders of bearer shares should then return their certificates to the registered office of HSBC Global Investment Funds to receive new certificates reflecting their new shareholding.

The number of shares to be allocated to each shareholder shall be based on the respective net asset values of the absorbing portfolio and the original portfolio on December 5th 1994.

The attention of the shareholders of the portfolios being absorbed is specifically drawn to the following:

The investment policy of North American Equity is to invest primarily to provide maximum capital growth through the United States of America, Canada and Mexico, whereas the investment policy of Canadian Equity is to achieve the same objective by investing only in companies whose activities are principally based in Canada or which are quoted or traded on an Eligible Market in Canada.

The currency of denomination of North American Equity is US Dollar as is the case for Canadian Equity.

The investment adviser to North American Equity is HSBC Asset Management Americas Inc. who are also the investment adviser to Canadian Equity.

The investment advisory fees and the distribution policy of North American Equity are identical to those applied to Canadian Equity.

Whereas South Pacific Equity seeks to achieve long term capital growth through investment in the equity markets principally of Australia and New Zealand, the aim of Asian Equity is to achieve the same investment objective from an actively managed portfolio of quoted securities on the regulated stock exchanges of the economies in Asia, excluding Japan. The major proportion of this sub-fund's investments will be in the markets of Hong Kong, Singapore, Malaysia and Thailand. However, the other stock markets of the region, including Korea, Shanghai and Shenzhen, China, Taiwan, the Philippines, Indonesia and Bombay, India, may be held from time to time.

The currency of denomination of Asian Equity is US Dollar as is the case for South Pacific Equity.

The investment adviser to Asian Equity is HSBC Asset Management Hong Kong Limited. The investment management and advisory fee in respect of Asian Equity will be of 1.5% per annum of the daily net asset value.

The distribution policy of Asian Equity is identical to the one applied to South Pacific Equity.

Whereas European Equity invests in shares of large Continental European companies quoted or traded on the Continental European Eligible Markets and United Kingdom Equity invests in shares issued mainly by well established United Kingdom Companies, the investment policy of the Pan European Equity aims to invest in a wide range of company shares quoted or traded on any of the Eligible Markets in both the United Kingdom and in other Continental European countries. Generally, the portfolio of securities will be those in large established companies with proven track records. The portfolio will also include securities in appropriate smaller or more specialised companies.

The currency of denomination of Pan European Equity is US Dollar, as is the case for European Equity and United Kingdom Equity.

The investment adviser to Pan-European Equity is HSBC Asset Management Europe Limited who are also the investment adviser to European Equity and United Kingdom Equity.

The investment advisory fees and the distribution policy of United Kingdom Equity and European Equity are identical to those applied to Pan European Equity.

By order of the Board of Directors

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 2 / Sch)

BELGIUM/LUXEMBOURG (Nov 2 / Frs.)

DENMARK (Nov 2 / Kr)

FINLAND (Nov 2 / Mks)

FRANCE (Nov 2 / Frs)

GERMANY (Nov 2 / Dm.)

ITALY (Nov 2 / Lira)

NETHERLANDS (Nov 2 / Fls.)

NORWAY (Nov 2 / Kroner)

SPAIN (Nov 2 / Pts.)

SWEDEN (Nov 2 / Kronor)

SWITZERLAND (Nov 2 / Frs.)

PACIFIC

JAPAN (Nov 2 / Yen)

HONG KONG (Nov 2 / H.K.$)

MALAYSIA (Nov 1 / MYR)

SINGAPORE (Nov 1 / S$)

AUSTRALIA (Nov 2 / Aust$)

AFRICA

SOUTH AFRICA (Nov 2 / Rand)

NORTH AMERICA

CANADA

TORONTO (Nov 2 / Can $) 4 pm close

MONTREAL (Nov 2 / Can $) 4 pm close

■ TOKYO – MOST ACTIVE STOCKS: Wednesday, November 2, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsubishi Oil	10.2m	980	-60	NKK	3.2m	297	-4
Nippon Steel	7.7m	398	-5	Gunma Bank	3.2m	1100	+10
Nikko Secs	4.4m	1110	-10	Hachijuni Bank	2.9m	1200	-10
Kawasaki Steel	4.1m	453	-6	Hitachi	2.9m	989	-11
Pacific Mts	4.0m	516	-5	Sumitomo Mtl Ind	2.8m	383	-2

INDICES

	Nov 2	Nov 1	Oct 31	1994 High		1994 Low	
Japan							
Nikkei 225 (16/5/49)	19750.85	19916.48	19889.60	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	287.01	289.19	290.50	311.71	13/6	268.22	4/1
Topix (4/1/68)	1568.65	1579.35	1584.66	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2209.80	2205.96	2191.05	2642.85	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	(c)	1083.58	1108.85	1314.46	5/1	928.33	4/4

** Sat Oct 29: Taiwan Weighted Price 6526.47; Korea Comp Ex 1096.25. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals 0 Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 28 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 2 – 2039.81 –20.27

US INDICES

						Since compilation	
Financial	43.25	43.73	43.90	46.94 (14/6)	41.39 (4/4)	46.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	256.74	258.69	259.43	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	455.52	458.57	458.16	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	772.19	777.49	776.15	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Oct 28	Oct 21	Oct 14	Year ago
Dow Jones Ind Div. Yield	2.70	2.72	2.71	2.77
	Oct 26	Oct 18	Oct 12	Year ago
S & P Ind. Div. yield	2.39	2.36	2.37	2.42
S & P Ind. P/E ratio	20.82	21.11	20.91	28.51

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	469.05	468.30	-0.85	470.15	468.00	80,285	204,208
Mar	471.40	471.30	-0.75	471.50	471.30	1,111	14,249
Jun	-	475.10	-	-	475.10	55	0,490

Open interest figures are for previous day.

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	1882.0	1879.0	-36.0	1894.0	1874.0	18,391	23,020
Dec	1892.5	1887.0	-37.5	1899.5	1883.0	2,920	27,367
Mar	1917.0	1913.0	-36.0	1917.0	1913.0	36	6,717

Open interest figures for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Gen Motors	7,235,100	38¾	-⅜
RJR Nabisco	5,237,300	6⅝	-⅛
Philip Morris	5,213,500	60¼	-⅞
Chile Tele	3,618,100	93½	-⅜
Citicorp	3,567,900	46¼	-1¾
McDonalds	3,328,700	29	+⅛
Ford Motor	3,280,500	29	-½
Sprint	3,175,500	33¼	+⅜
Union Carbide	3,058,100	31⅛	-1⅞
Telefonos	2,931,300	54	-1

■ TRADING ACTIVITY

● Volume (million)

	Nov 1	Oct 31	Oct 28
New York SE	314.959	294.514	381.350
Amex	19.039	15.858	17.302
NASDAQ	288.525	287.416	348.396
NYSE			
Issues Traded	2,880	2,883	2,879
Rises	810	1,041	1,646
Falls	1,614	1,157	621
Unchanged	656	685	612
New Highs	25	85	97
New Lows	159	99	126

7 Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close November 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	12⅛	AAR x	0.48	3.8	20	84	12⅞	12¾	12¾	
10	12⅞	A L Labs A	0.18	1.1	30	282	17⅞	16⅞	16⅞	-⅞
79⅞	57⅞	AMP x	1.68	2.2	25	3809	76¼	74½	75⅞	+⅞
72¾	48⅛	AMR			00	5790	55⅞	54⅞	54⅞	
5	3⅞	ARX			13	101	3⅞	3¾	3⅞	+⅛
58⅛	38⅞	ASA	2.00	4.2	21	232	48⅛	47⅞	48⅛	+⅛
32	25⅞	AbbotL	0.76	2.5	18	7427	31½	30¾	30⅞	-⅛
15¾	11⅞	Abitibi Pr	0.50	3.8	11	213	13⅞	13⅛	13⅛	-¼
23⅞	17¾	ABM Ind	0.52	2.6		112	20½	20⅞	20⅞	-¼
10	11⅛	Acptocsln			30	184	19½	18¼	18½	+¼
31	22	ACE Ltd	0.44	1.9	28	188	23	22¼	22¾	+⅛
12½	9¼	ACM Gvt In	1.09	11.7		150	9½	9⅞	8⅞	
10⅛	7	ACM GvOpp	0.80	11.0		107	7⅞	7¼	7¼	-⅛
10⅞	7	ACM Gvt Sp	0.96	13.2		408	7¼	7⅛	7¼	+⅛
12	8¼	ACM Gvt Se	1.09	13.1		480	8⅞	d8¼	8⅞	+⅛
11¾	7⅞	ACM Man	1.08	13.5		102	8⅛	7⅞	0	
9¼	0	ACM Managd	0.72	8.9		185	8⅛	8⅛	8⅛	
15½	8¾	AcmeClr x	0.44	3.3	10	435	14¼	13½	13½	+⅛
13⅞	8½	Acme Elect			10	137	11⅛	11⅞	11¾	+½
28¾	23	Acordia	0.60	2.1	14	141	28⅞	28	28	-⅞
13¾	5¾	Actava	0.36	4.2	2	302	8¾	8½	8⅞	-⅛
18⅞	11¾	Acuson			135	258	17⅞	17⅞	17⅞	-⅛
18⅞	16½	Adams Expr	0.48	2.8	0	459	16⅞	16¾	16⅞	
64	48½	Ad Micro	3.00	5.3		4178	56½	55⅞	56¼	+¼
31¾	18¾	AdvMic	3.00	11.4	11	16741	26⅞	25⅞	26⅞	+⅝
6⅞	5	Advest Grp	0.10	3.0	0	11	5⅞	5¼	5⅞	
20	15	Advo Inc	0.10	6.0	110	3	17¾	17⅞	17¾	
84	49⅞	Aegon ADR	1.47	2.4	13	12	81½	80⅞	80⅞	-1⅛
[illegible]										

- A - [illegible] - B - [illegible] - C - [illegible] - D - [illegible] - E - [illegible] - F - [illegible] - G - [illegible] - H - [illegible] - I - [illegible] - J - [illegible] - K - [illegible] - L - [illegible] - M - [illegible] - N - [illegible] - O - [illegible] - P - Q - [illegible] - R - [illegible] - S - [illegible]

Continued on next page

هكذا من الأصل

4 pm close November 2

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
9⅜	4¾	Salant Corp			6	534	4⅞	d4⅝	4⅞	-⅛
49⅞	31¼	Sallie Mae	1.40	4.4	6	2590	32⅛	31⅝	32	+¼
13⅞	11⅞	Salomon Br x	0.36	2.9		530	12⅜	12⅝	12⅜	+⅛
52¾	37	Salomon	0.64	1.7	5	1822	38¾	37⅞	38	-⅜
25	17½	SnDgGE	1.52	7.7	10	693	20	19¾	19¾	-⅛
10	7½	SantaFeEPa	0.16	1.8	10	1190	9¼	9	9	-¼
17⅞	13½	SFeGd				10480	14⅜	14⅛	14¼	+⅛
25¾	12⅞	SanFeP	0.10	0.7	8	9548	15⅝	15	15¼	-⅛
26	19⅞	SaraLee	0.68	2.7	16	12365	25¼	24⅝	24⅞	
50⅛	42	Scana Corp	2.82	8.6	11	241	42⅞	42⅝	42⅞	+¼
20½	12½	Scecrp	1.00	7.3	9	5343	13¾	13½	13⅝	+⅛
44⅝	31¾	SchererRP			33	173	44	43⅝	44	-¾
72½	54½	SchPlx	2.04	2.8	18	4748	72⅛	71¼	71⅝	-¼
63	50¾	Schlmb	1.20	2.1	23	3323	58½	57⅛	57⅛	-1
37	23¾	Schwab(C) x	0.26	0.8	17	2452	35¾	34½	35⅝	+½
10¾	8⅛	Schweitzer			28	398	10	9¾	10	
22⅝	12⅞	SciAtl	0.06	0.3	43	2691	22	21⅝	21½	+⅛
16⅞	13	Scotman	0.10	0.6	14	25	15⅞	15⅞	15⅞	
67½	37¼	ScottP	0.80	1.2	20	2374	65⅝	64¾	65¼	+⅝
28⅝	19⅝	ScudderNAsF	0.21	0.9		52	23⅞	23½	23⅞	+¼
12⅝	9⅛	ScudderNEuF	0.18	1.7		113	9½	9⅜	9⅜	-⅛
18¼	13½	SeaCnB x	0.70	4.8	T	11	15⅛	14¾	15⅛	+¼
16½	14⅝	SeaC1.4625	1.46	0.T		x100	15¼	15⅛	15¼	-⅛
32⅝	26¼	Seagrm	0.60	2.0	35	2089	30½	29¾	29¾	-⅛
29¾	21⅞	Seagull En			32	3057	25⅜	24½	24½	-⅜
35¼	26⅝	Sealed Air			20	148	34½	34⅛	34⅝	+⅛
55⅛	42⅛	SearsR	1.60	3.3	1	4986	49⅛	47⅞	48½	+⅛
13¾	10	Seligm Sel	0.84	8.1		208	10⅜	10⅛	10⅜	+⅛
39¼	26	Sensormat x	0.22	0.6	37	1683	37	35⅜	36½	-¼
39¾	23½	SequaA	0.60	2.4	5	67	24⅞	24⅛	24¾	+⅝
40¼	27¼	SequaB	0.50	1.8	14	11	28	27⅞	28	+¼
26	22½	SrvCp	0.42	1.6	21	692	26¾	25½	26⅝	
28⅜	22	SrvMstr	0.92	3.8	12	653	24½	24¼	24⅜	
25	13⅞	Shaw Ind	0.22	1.5	18	3047	15	14½	14⅞	+¼
25	19¼	Shawmut Nt	0.80	4.0	16	4214	20¼	19⅞	20	-⅛
14⅝	8¾	Shelby W x	0.28	3.2	19	296	8⅞	d8¾	8⅞	+⅛

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33⅜	27	WiscPubSv	1.82	6.6	11	111	27⅝	27½	27⅝	
18⅞	15	WiserO	0.40	2.4	150	66	16½	16⅜	16½	-⅛
35	26¼	Witco Corp	1.12	4.1	59	940	27½	26⅞	27½	+⅛
30⅝	22⅝	WMX T	0.60	2.1	31	4311	29⅛	28⅞	28⅞	-¼
27⅛	18½	Wolverine	0.16	0.9	15	141	25	24⅝	25	+⅛
25¼	12⅞	Woolwth x	0.60	3.9	3	3867	15½	15⅝	15½	+¼
18½	14⅛	World Wide	0.10	0.7		16	14½	14⅜	14¾	-⅛
10	3⅝	Worldcorp			10	238	9⅞	9	9	-⅛
53⅞	38⅛	Wrigley	0.56	1.2	30	1137	45¾	44¾	45½	+⅜
20¾	16¼	Wyle Labor	0.28	1.5	20	73	18⅝	18½	18½	-⅛
23½	18¼	Wynns Int	0.44	1.9	14	54	22⅞	22⅝	22⅞	+⅛

- X - Y - Z -

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
112¾	87¾	Xerox	3.00	2.8	62	5386	104¾	101	102⅞	+1⅞
53¼	40	Xtra Corp	0.58	1.1	22	515	50½	50¼	50¼	-¾
25½	20	Yankee Egy	1.22	5.5	12	43	22⅝	22⅛	22⅜	+¾
42½	33⅞	York Int	0.16	0.4	18	716	38⅝	38¼	38⅝	+⅛
5½	1	Zapata	0.14	3.5		261	4	3⅞	4	+⅛
14⅛	7	ZnthEl			9	3490	13⅝	13⅛	13⅛	
27⅞	20⅝	Zenith Nat x	1.00	4.1	8	85	24⅛	24	24⅛	+¼
7⅞	6⅝	Zenix Inc	0.83	12.0		66	6⅞	6⅜	6⅞	
16⅛	11⅞	Zero x	0.48	3.1	15	116	13	12¾	12⅞	
29¾	15⅞	Zurn Ind	0.88	4.8	76	206	18⅝	18¼	18½	+⅛
13⅞	10⅜	Zweig Fund	1.08	10.3		177	10½	d10¾	10½	
10¾	8⅛	Zweig Totl	0.84	10.0		468	8⅜	8¼	8⅞	+⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1994. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio

NASDAQ NATIONAL MARKET

4 pm close November 2

AMEX COMPOSITE PRICES

4 pm close November 2

AMERICA

Fed support for dollar aids recovery in Dow

Wall Street

US share prices were mostly flat in early afternoon trading yesterday aftsr Federal Reserve intervsntion to support the dollar helped hoth stocks and bonds to recover from early losses, *writes Lisa Bransten in New York.*

By 1 pm, the Dow Jones Industrial Average was up 3.70 at 3,867.07. The more hroadly hased Standard & Poor's 500 was also slightly higher, up 1.26 at 469.68, while the American Stock Exchange composite was down 0.37 at 455.15. The Nasdaq composite was up 4.35 at 776.54. Trading volume on the NYSE totalled 196m shares.

In early trading, the stock market fell in the wake of lower bond prices, which were pulled down hy a weakening dollar. At one point, when the dollar had dropped to a post-1945 low and the 30-year bond yield was at a two-and-a-half year high, the Dow dropped by more than 20 points.

Share prices, however, quickly recovered after Federal Reserve intervention in the currency markets wiped out early morning losses in the dollar, and helped bond yields to retreat from their earlier highs.

The Fed's intervention was welcomed by investors who had feared that the csntral bank would allow the dollar to keep falling. Apart from the damage a weak dollar inflicts on the hond market, equity investors feared that a weakening US currency would make stocks unattractive to foreign huyers.

The day's economic news, meanwhile, had little impact on trading. The commerce department reported no change in its index of leading economic indicators for September and revised August's figures downward to an increase of 0.5 per cent from the 0.6 per cent reported last month. The government also reported that factory orders declined 0.2 per cent in September, a turnround from the 4.7 per cent reported the prevons month, and released its Beige Book report on the economy showing continued expansion in husiness activity.

Among individual stocks, Quaker Oats fell $5¼ to $69¾ in volume of 1.4m shares on news that the company planned to buy Snapple Beverage, the soft drinks group, for $14 a share or $1.7bn in cash. Quaksr also said it would seek huyers for its European pet food and Mexican chocolate businesses.

The sharp fall in share prices killed recent bid speculation eurrounding the company, while the acquisition indicated a dilution of Quaker's earnings. Snapple'e share price, which trades on the Nasdaq market, fell $¾ to $13⅞ in heavy trading.

Technology stocks were in favour, with IBM, Compaq and Digital Equipment each up by $1, at $74¾, $41½ and $30⅞ respectively, and Hewlett-Packard better $1⅝ at $99.

Eli Lilly rose $1⅛ to $63 on expectations that the Federal Trade Commission will announce an agreement today with the company to allow the drugmaker to purchase PCS, a drugs distributor.

On the Nasdaq market, technology issnes led stocks higher. Intel climhed $1⅞ to $63¼, Microsoft added $1⅛ at $63⅞, Sun Microsystems firmed $⅝ to $33⅝ and Lotus Development rose $1¼ to $39½. The exception was Apple Computer which eased $⅛ to $43.

Canada

Toronto was easier at midday, in spite of the recovery on Wall Street after the Fed's intervention to support the dollar.

The TSE 300 composite index fell 13.82 to 4,280.63 at noon in turnover of 31.9m shares. Declines led advances 323 to 236, with 303 issues steady.

Only two of the market's 14 sub-indices were higher at midday. Transportation stocks led the downward trend with a 1.2 per cent fall, while real estate and construction stocks were 0.6 per cent lower.

The precious metals group was also down as Comex gold came under pressure from the rebound in the US dollar after the Fed intervention.

Pure Gold Resources shed 4 cents to 30 cents after Tuesday's sharp rally, while Thomson was C$⅜ off at C$15⅞.

Venezuela

Share prices in Caracas fell in thin activity, the Merinvest index losing 1.84 or 1.3 per cent at 142.08 after a drop of 2.2 per cent on Tuesday.

Confusion was reported over rights to a one-for-six, $65m offer of shares by the benchmark utility Electricidad de Caracas. Affected by this the stock fell sharply in midsession, prompting the exchange to suspend trading while it consulted with the company.

Trading in the stock did not resume. At the moment it was suspended, a half-hour before the end of the two-hour session, Electricidad was trading at 305.00 bolivers, down 8.50 bolivars on the day.

SOUTH AFRICA

Johanneshnrg overlooked softer world markets and a weak gold price to post steady gains as local interest propped up prices in mostly lacklustre trade. The overall index improved 30 to 5,738, industrials were 27 better at 6,605 and the golds index rose 33 to 2,241. Anglos put on 75 cents at R237.75 in R25m turnover.

EUROPE

Switch to growth stocks mooted for Q4

Bourses weakened following the overnight drop in US equities, and yesterday's Federal Reserve support for the dollar came too late in the day to engender any recovery, *writes Our Markets Staff.*

There was change to come, however, said Mr François Langlade-Demoyen of CS First Boston: his scenario was that growth momentum will start to fade in the fourth quarter of this year, and that cyclicals will lose their charm to the benefit of growth stocks.

FT-SE Actuaries Share Indices

Nov 2								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1322.36	1321.17	1322.88	1321.10	1319.44	1319.78	1317.79	1316.01
FT-SE Eurotrack 200	1388.68	1387.98	1389.20	1387.70	1385.16	1385.31	1383.44	1382.67
	Nov 1	Oct 31	Oct 28	Oct 27	Oct 26			
FT-SE Eurotrack 100	1331.23	1337.14	1326.61	1303.28	1300.71			
FT-SE Eurotrack 200	1392.30	1400.54	1388.91	1361.02	1358.10			

Base 1000 (26/10/90); High/day: 100 - 1323.35; 200 - 1390.41 Low/day: 100 - 1315.65 200 - 1381.94 † Partial

FRANKFURT followed CSFB's inclinations, or appeared to do so, with big gains in construction stocks and the computer software producer SAP, and falls in chemicals. The Dax index dropped 27.38 to 2,042.35 on the session, easing a little further after hours, and turnover more than doubled to DM6.1hn following Tuesday's holiday in some German cities.

SAP rose DM17 to DM957 and, in construction, Hochtief and Holzmann put on DM29 at DM968 and DM18 at DM855. At Robert Fleming in Frankfurt, *Mr Hans Peter Wodniok* observed that construction shares tend to outperform in late autumn and winter, provided that sites are not frozen up for months on end.

Among cyclicals, by the end of the afternoon, Bayer was down DM8.60 at DM341, Hoechst by DM7 at DM321.40, Continental, the tyremaker, hy DM7 st DM213 and MAN, the truckmaker and engineer, hy DM11.10 at DM369.90. Here, Mr Wodniok said that sector performance charts for the German market suggest periods of outperformance or underperformance lasting between 2½ and 4½ years; chemicals had been outperforming for close to 4 years in the present cycle, suggesting that this period was coming to an end.

PARIS came back from two days' holiday to a fall of 1.7 per cent following Friday's 2.6 per cent gain, the drop of 32.09 in the CAC-40 to 1,873.90 reflecting weakness in US currency, *bond and equity markets.* Turnover was FFr4.05bn.

However, the bourse found the ahility to celebrate a 14.2 per cent rise in nine-month sales at Peugeot, which added FFr17 at FFr788, and to anticipate good nine-month results after hours from Roussel Uclaf, the Hoechst subsidiary, which climbed FFr16 to FFr591.

MILAN turned back as Credito Romagnolo began to erect defences against Credito Italiano which, last week, bid L2,000bn for a 48 per cent stake in the Bologna hank. The Comit index dropped 9.89 or 1.6 per cent to 625.54.

Romagnolo fell L654 to L16,295 in early trade before the shares were suspended as the hoard announced plans to merge its operations with those of Casse Emiliano Romagnole, a Bologna-hased savings bank.

Mr Bryan Crossley at Hoare Govett said that the move was clearly an attempt to make Romagnolo *"indigestihle". He* noted that Romagnolo and Emiliano had previously discussed links and said thet any such move would make strategic and commercial sense.

Credito Italiano finished L51 cheaper at L1,589.

Meantime, BCI fell L95 to L3,461 as the board met to discuss future strategy, prompting further speculation that it might be about to launch a hid for Amhroveneto. However, analysts were sceptical about any such move in the short term, pointing to the 34.4 per cent rise in the Ambroveneto share price between Wednesday of last week and last Monday. Ambroveneto was marked 9.1 per cent lower in early dealings, as investors digested developments at Romagnolo, before bouncing back to finish L79 higher at L5,316.

ZURICH's SMI index eased 3.9 to 2,500.0. UBS bearers remained at the centre of attention, giving up SFr11 to SFr1,125 as investors continued to swap into CS Holding. SFr7 ahead at SFr564.

SBC came under pressure, the hearers losing SFr6 to SFr353 after the bank reported nine-month figures and warned thet it expected significantly lower full-year results.

Exporters were unsettled by the weak dollar, Nestlé losing SFr7 to SFr1,167, BBC easing SFr20 to SFr1,060, and Ciba giving up SFr6 at SFr721.

Schindler bearers picked up SFr450 or 6.7 per cent to SFr7,200 on the view that the recent correction had been overdone. One analyst commented that the stock had seen a number of recent brokers' recommendations; Mr Martin Ebner's BK Vision was also rumoured to be a buyer.

Oerlikon-Bührle picked up SFr3.50 to SFr136.50 after the chairman gave a positive outlook for earnings developments in the coming years at an analysts' presentation in Zurich.

AMSTERDAM saw the AEX index close 4.60 down at 405.75, and Akzo Nobel lost Fl 3.40 at Fl 208 although its third-quarter results were in line with most expectations. Merrill Lynch said the company was on track for good performance over the next few years and recommended using the recent share price weakness as an opportunity to buy.

DSM picked up 40 cents to Fl 141.40 after Tuesday's sharp losses which followed its third-quarter results.

Among companies expected to report today, Philips shed 90 cents to Fl 54.70 and KLM gave up Fl 1.20 at Fl 47.30.

MADRID was dominated by outside influences as the general index retreated 3.06 points to 293.24 in turnover of Pta23.01bn. *BCH rose* Pta15 to Pta3,015 before disclosing, after hours, a 25 per cent decline in net profits for the first nine months of 1994.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Strong yen hits Nikkei as Taipei rebounds

Tokyo

The continued strength of the yen hit investor confidence and the Nikkei 225 average lost ground as market participants closed their positions ahead of today'e national holiday, *writes Emiko Terazono in Tokyo.*

The index was off 165.83 at 19,750.65 after a day's high of 19,891.78 and low of 19,713.94. A decline in the futures market due to Tuesday's fall in stock and bond prices on Wall Street prompted arbitrage unwinding, while corporate investors were also seen selling shares. Large-capitalisation steels and shipbuilders were lower on institutional profit-taking.

The dollar reached a record low of Y96.35 in spite of heavy Bank of Japan intervention, hurting export-oriented high-technology stocks and car makers. Nomura Research Institute, ths research arm of the leading hrokerage company, forecast that the yen could rise further in the long term.

Nomura took the view that the widening of Japan's trade surplus with the US, due to growth in the global economies and the J-curve effect, could pnt further pressure on the yen-dollar rate.

Volume totalled 250m shares, against 247m. The Topix index of all first section stocks slipped 10.67 to 1,568.68 and the Nikkei 300 shed 2.18 to 287.01. Falls led rises by 671 to 303, with 194 issues unchanged. In London the ISE/Nikkei 50 index lost 0.39 at 1,288.60.

Mitsuhishi Oil, the most active issue of the day, plunged Y60 to Y980. The company confirmed that it had failed to extract oil from its second well off the coast of Vietnam. Other petroleum distributors were also weaker, with Cosmo Oil down Y22 to Y738 and Japan Energy losing Y16 at Y410.

Electronics shares were weak. TDK declined Y120 to Y4,700 and Sony Y70 to Y5,850. Heavy electricals fell, NEC retreating Y20 to Y1,210. Carmakers were also lower. Nissan Motor dropped Y16 to Y814 and Isuzu Motors Y11 to Y518.

Japan Tohacco dipped Y30,000 to Y10.8m and Nippon Telegraph and Telephone declined Y12,000 to Y908,000. Japan Telecom sagged Y90,000 to Y3.53m, while East Japan Railway lost Y2,000 at Y482,000.

In Osaka, the OSE average receded 111.57 to 21,976.87 in volume of 59.2m shares.

Roundup

Wall Street inhibited trading in some Pacific Rim markets, while Kuala Lumpur, Singapore and Bombay were closed for holidays.

TAIPEI rehounded 2.3 per cent after Tuesday's 5 per cent fall, with rises led by paper, steel and conglomerate shares. The weighted index gained 141.45 at 6,342.66, off a 6,372.65 day's high, hut turnover was a modest T$57.81hn.

Buying emerged in the last 20 minutes as two new funds, with T$5bn each, entered the market. Paper stocks led the rally, rising 4.6 per cent on pulp price increases, with Chung Hwa Pulp up its 7 per cent limit to T$41.90.

HONG KONG saw selling by foreign investors which left the Hang Seng index 121.64 or 1.3 per cent lower at 9,451.76, in spite of comments by a senior government adviser that the long awaited Sino-British airport financing pact would be signed within days.

Blue chips bore the hrunt of the selling. Swire Pacific "A" fell HK$1.25 to HK$56.25, HSBC HK$1 to HK$90 and Cheung Kong 60 cents to HK$36.40.

Hong Kong Telecom, which announced interim results on Tuesday, fell further on profit-taking, relinquishing 40 cents at HK$15.80.

SYDNEY was lower in light volume, taking its direction from Wall Street. The All Ordinaries index ended 16.8 down at 2,011.2.

The dehut of Acacia Resources, the minerals subsidiary floated off by Shell Australia, saw strong institutional support, the stock finishing at a 38-cent premium to the A$2.00 issue price.

MANILA was supported by a strong nine-month earnings report from Petron, and the composite index picked up 22.13 to 8,090.65. The oil refiner jumped 5.9 per cent to a new high of 27.00 pesos.

SEOUL saw profit-taking coupled with Won10bn of sales hy the market stabilisation fund which pulled the composite index 2.69 lower to 1,105.74.

Construction shares lost ground on market talk that the government might take punitive action against some companies for corruption; the subindex shed 11.82 to 569.85.

In a separate situation, Dong-Ah Construction went limit down on reports that its chairman would be summoned for questioning in connection with the collapse of a Seoul bridge last month. It fell Won1,300 to Won29,600.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms Oct. 28 1994	% Change over week	% Change on Dec '93	Local currency terms Oct. 28 1994	% Change over week	% Change on Dec '93
Latin America	(208)	738.85	+0.2	+13.6			
Argentina	(25)	916.84	-2.3	-7.8	582,662.46	-2.3	-7.8
Brazil	(57)	426.02	+9.2	+83.1	1,350,985,929	+8.8	+1,229.4
Chile	(25)	835.47	-0.2	+51.4	1,374.75	-0.2	+44.2
Colombia[1]	(11)	824.53	-3.6	+27.9	1,224.12	-3.9	+32.0
Mexico	(67)	918.35	-4.5	-8.7	1,359.90	-4.0	+0.8
Peru[2]	(11)	193.60	+2.6	+60.1	262.94	+2.5	+65.3
Venezuela[3]	(12)	549.70	+2.3	-7.1	2,146.60	+2.4	+51.0
Asia	(557)	278.59	-1.0	-5.0			
China[4]	(18)	101.48	-1.5	-32.0	109.35	-1.5	-33.4
South Korea[5]	(156)	148.76	-1.5	+25.9	155.72	-1.8	+24.1
Philippines	(19)	323.00	+0.2	-5.1	386.54	-1.0	-12.5
Taiwan, China[6]	(90)	151.71	-3.4	+12.2	148.32	-3.4	+10.9
India[7]	(76)	132.36	-1.1	+13.6	147.50	-1.1	+14.5
Indonesia[8]	(37)	109.94	+0.4	-11.8	129.65	+0.3	-8.9
Malaysia	(104)	304.44	-1.0	-10.2	286.61	-1.0	-14.9
Pakistan[9]	(15)	412.23	-0.9	+6.3	573.22	-0.8	+8.5
Sri Lanka[10]	(5)	191.84	-2.5	+8.2	203.75	-2.5	+8.7
Thailand	(55)	444.21	-1.4	-7.0	439.45	-1.3	-9.1
Euro/Mid East	(125)	116.69	+1.0	-31.1			
Greece	(25)	220.44	-1.5	-3.2	346.83	-1.0	-9.8
Hungary[11]	(5)	182.32	-0.8	+9.4	233.40	+0.1	+15.6
Jordan	(13)	154.12	+0.2	-6.3	223.54	-0.2	-6.6
Poland[12]	(12)	515.90	-10.3	-36.9	749.08	-9.6	-32.2
Portugal	(25)	128.89	-1.2	+11.5	134.48	-0.4	-2.6
Turkey[13]	(40)	114.17	+5.6	-46.3	1,935.14	+6.9	+33.0
Zimbabwe[14]	(5)	264.02	-1.5	+30.6	323.85	-1.3	+51.6
Composite	(891)	360.35	-0.3	+1.3			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

The smallest of the world's emerging markets recorded the biggest gains in the nine months to the end of September, according to data compiled by Kleinman International, the US-based independent analysts. In local currency terms Egypt rose by 115 per cent since the start of the year and Ghana by 120 per cent.

However, there was also clear evidence that among the more important and liquid markets, Latin America had staged a robust recovery from setbacks earlier in the year. Brazil's performance was boosted by what was seen as the successful introduction of the last stage in the economic reform process in July – the switch to a new currency, the real. Since then the São Paulo equity market has retreated, but analysts consider that it is now poised for a year-end rally. Salomon Brothers said this week that, along with Mexico, an improvement in the outlook for company earnings and a more promising political outlook should provide the incentive for a rise in prices.

In contrast Salomon has lowered its asset allocation to Argentine equities on expectation of higher US interest rates, given that this market is the most vulnerable in the region to rate moves.

● The IFC has launched new stock indices for South Africa, available both in global and investable versions. The indices are composed of 63 stocks with a market capitalisation of some $139bn, or 62 per cent of the stock market's total capitalisation.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY NOVEMBER 1 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY OCTOBER 31 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	172.44	-1.0	156.39	108.47	134.43	154.68	-0.8	3.58	174.16	158.36	106.73	135.52	156.07	169.15	149.36	162.63
Austria (16)	163.20	0.0	158.14	112.05	143.61	143.55	0.0	1.12	163.20	166.58	112.27	143.60	143.52	195.89	167.46	178.34
Belgium (36)	170.78	0.6	154.89	104.46	133.14	133.86	0.0	4.25	169.72	154.32	104.01	133.03	129.85	177.04	149.33	149.33
Brazil (28)	176.86	-2.0	160.40	108.17	137.57	274.93	-2.0	0.75	180.44	164.07	110.58	141.44	280.50			
Canada (103)	135.29	-1.0	122.70	82.74	105.46	132.70	-0.8	2.56	136.64	124.24	83.74	106.96	133.76	145.31	120.54	133.31
Denmark (33)	262.85	-0.7	238.31	164.64	187.10	201.73	-1.3	1.47	264.67	231.56	156.07	199.82	204.33	273.79	230.27	226.38
Finland (24)	197.47	-0.7	178.08	120.77	153.93	190.54	-1.2	0.74	198.88	180.63	121.88	155.89	193.85	201.41	116.85	123.71
France (101)	171.68	0.9	155.70	105.00	133.81	136.18	0.0	3.14	170.62	155.13	104.56	133.73	136.27	[illegible]	[illegible]	[illegible]
Germany (58)	145.90	0.5	132.31	89.23	113.73	113.73	-0.1	1.80	145.23	132.06	89.00	113.84	113.84	160.40	126.37	132.72
Hong Kong (55)	388.82	-0.8	352.45	237.89	302.96	385.66	-0.8	3.10	391.00	355.53	239.62	305.46	387.08	509.56	341.29	384.89
Ireland (14)	208.61	2.1	190.09	128.20	163.40	183.03	-0.4	3.46	206.39	190.28	126.52	164.15	183.81	216.60	171.90	171.98
Italy (58)	79.69	0.2	72.45	48.86	62.28	91.86	0.0	1.71	79.74	72.60	48.87	62.50	91.86	97.73	67.86	68.08
Japan (468)	163.70	-0.3	148.46	100.12	127.61	100.12	-0.3	0.77	164.12	149.23	100.58	128.08	100.58	170.10	134.54	134.64
Malaysia (97)	535.32	-1.3	487.45	327.40	417.30	327.40	-1.2	1.84	542.27	493.05	332.28	423.05	533.56	621.60	430.71	474.72
Mexico (18)	2085.35	-0.7	1900.27	1281.52	1633.37	7877.47	-0.7	1.30	2111.01	1918.47	1293.70	1654.88	7930.54	2647.08	1696.28	1650.14
Netherland (19)	221.36	-0.5	200.75	135.38	172.56	168.75	-1.5	3.40	223.30	203.04	136.84	175.03	172.28	225.30	201.04	184.68
New Zealand (14)	76.70	0.5	69.56	46.91	59.78	68.15	0.5	3.67	76.34	69.42	46.78	59.84	68.83	77.59	59.22	68.38
Norway (23)	203.76	-0.8	184.79	124.62	158.83	180.74	-1.1	1.83	205.31	186.68	125.82	160.86	182.66	211.74	165.52	151.58
Singapore (44)	399.51	-0.8	362.32	244.34	311.43	270.17	-0.7	1.56	401.39	364.96	245.98	314.62	271.95	401.30	294.66	318.63
South Africa (59)	327.98	-1.4	297.44	200.58	255.67	291.05	-0.4	2.20	332.71	302.52	203.90	260.78	292.34	342.00	202.72	212.07
Spain (38)	143.33	0.5	129.96	87.66	111.73	135.46	0.0	4.31	142.56	129.63	87.37	111.74	135.46	155.79	126.88	142.96
Sweden (35)	242.68	0.0	220.09	148.43	189.18	258.10	-0.2	1.55	242.62	220.61	148.69	190.18	258.86	242.68	175.83	201.66
Switzerland (47)	165.36	0.8	149.98	101.13	128.90	128.31	-0.2	1.50	164.07	149.18	100.55	128.50	128.50	178.56	143.64	149.33
Thailand (46)	182.54	1.2	165.55	111.64	142.30	176.42	1.1	1.85	180.44	164.07	110.58	141.44	174.84			
United Kingdom (204)	205.47	0.2	186.34	125.66	160.17	186.34	0.0	4.06	205.01	186.41	125.64	160.70	186.41	214.95	181.11	190.08
USA (516)	191.28	-0.8	173.47	116.99	149.11	191.28	-0.8	2.86	192.78	175.29	118.14	151.11	192.78	198.04	178.90	191.08
Americas (664)	179.00	-0.8	162.33	109.48	139.53	148.75	-0.8	2.73	180.44	164.07	110.58	141.44	149.94			
Europe (707)	175.75	0.3	159.39	107.49	137.00	150.40	-0.2	3.10	175.29	159.39	107.42	137.40	150.65	178.56	154.76	160.23
Nordic (116)	232.83	-0.3	210.88	142.21	181.26	210.82	-0.7	1.40	233.25	212.09	142.95	182.83	212.40	233.91	173.19	190.62
Pacific Basin (793)	172.24	-0.3	156.24	105.36	134.29	106.85	-0.3	1.09	173.52	157.78	106.34	136.02	111.53	176.85	143.79	159.53
Euro-Pacific (1500)	174.00	-0.1	157.60	106.42	135.64	126.79	-0.4	1.84	174.14	158.34	106.72	136.50	127.86	177.16	143.88	158.96
North America (618)	187.21	-0.8	170.02	114.66	146.40	187.26	-0.8	2.84	189.29	172.12	116.00	148.37	189.72	192.73	175.67	187.50
Europe Ex. UK (503)	156.18	0.3	141.62	95.51	121.78	128.41	-0.2	2.51	155.72	141.59	95.43	122.09	128.73	158.12	135.94	141.07
Pacific Ex. Japan (325)	263.17	-0.7	238.67	160.96	205.15	233.58	-0.7	2.72	265.07	241.02	162.44	207.77	235.15	296.21	232.54	244.25
World Ex. US (1706)	175.62	-0.1	159.27	107.41	136.90	130.45	-0.4	1.95	175.89	159.93	107.79	137.57	130.96	176.65	145.58	160.35
World Ex. UK (2019)	177.30	-0.4	160.79	108.43	138.21	145.43	-0.6	2.05	178.07	161.91	109.13	139.58	146.27	178.50	155.96	167.81
World Ex. Japan (1755)	190.42	-0.4	172.70	116.46	148.44	177.86	-0.6	2.86	191.22	173.87	117.18	149.90	179.26	192.71	176.34	181.54
The World Index (2223)	179.78	-0.4	163.04	109.95	140.14	148.15	-0.5	2.26	180.44	164.07	110.58	141.44	149.94	180.80	158.85	169.69

Latest prices were unavailable for this edition. Markets closed 1/11/94: Austria, Belgium, France, Italy and Spain.